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# China Report

ECONOMIC AFFAIRS

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22 October 1985

# CHINA REPORT

## ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

JOURNAL ON MODE OF MANAGEMENT, OWNERSHIP

HK061412 Beijing JINGJI YANJIU in Chinese No. 7, 20 Jul 85 p 59

Article by Xiao Liang [2556 0081]: "The View That Mode of Management Has Nothing To Do With Ownership Should Be Discarded"

[Text] It seems that research on the question of ownership over the last two or three years has slackened when compared with the initial years of the 1980's. The majority of the published articles concerned were of the view that the change of the mode of management has nothing to do with the system of ownership of the means of production. On the one hand, this does not comply with original Marxist ideas and, on the other hand, it fails to reflect the actual profound development in restructuring the national economy.

Marx said that the system of private ownership "is the sum of the bourgeois production relations." Although we might have different interpretations of the words of Marx, none of us can deny that the ownership system is an important category of political economics; research on production relations is inevitably connected with the ownership system. Since we seek to readjust the production relations and superstructure which do not comply with the development of the productive forces in restructuring the national economy, it is insufficient to say that restructuring the national economy only readjusts and changes the mode of management.

The actual situation is not like this. The result of implementing the system of contracting responsibilities to the rural households has, on the one hand, broken through the mode of ownership of "three-level ownership by the commune, the production brigade, and the production team, with the production team as the basic accounting unit," and, on the other hand, has caused the emergence of professional households and new joint units, enabling the means of production owned by the individuals to grow daily. The urban collective economy has also changed from the system of being centrally responsible for profits and losses to being solely responsible for profits and losses in order to change the system of "ownership by the department" and "ownership by the localities" which fail to comply with the development of the productive forces so that the collective enterprises can really become enterprises owned by the collective and which are worthy of the name. As far as the reforms of whole-people's ownership economy are concerned, the reforms include "replacing profit delivery with taxation," expanding the enterprises' decisionmaking

rights, reforming the leadership groups or amalgamating the enterprises, the transfer of ownership and leasing certain small enterprises, allowing individuals and collectives to contract responsibilities for small enterprises, or even allowing the workers to hold shares and so on, can we say that all these are only changes in the mode of management and have nothing to do with ownership? Certainly, these reforms and readjustments are in general, launched on the basis of upholding socialist public ownership. However, they are also concerned with the readjustment of the system of ownership. They also helped to perfect our country's socialist ownership system.

As far as importing foreign capital and appropriately restoring and developing the individual ownership economy are concerned, these reforms have gone beyond the extent of socialist public ownership. All this has made our country's present ownership structure more rational. From an overall point of view, public ownership is still and will always be the basis of our country's social economic system.

Some comrades said: The "Decision of the CPC Central Committee on Reform of the Economic Structure" says that ownership rights and management rights can be appropriately separated; and if the two can be separated, how can we say that the change in the mode of management is connected with ownership?

In my opinion, the "decision" has a scientific view, however, it cannot prove that the mode of management has nothing to do with ownership. First, the "decision" only mentions ownership rights and management rights but does not say the ownership system and the mode of management; the meaning of ownership system and the mode of management is more extensive than membership rights and management rights. Second, when the "decision" says that the two can be separated, it is done so with reference to reform of the whole-people's ownership system, but the relationship between the mode of management and the ownership system that we mention at present means the readjustment of the economic relations of the entire society. Third, the "decision" adopted the approach that the two can be appropriately separated, my interpretation is that "appropriate separation" does not mean "total separation." Fundamentally speaking, the mode of management is connected with the ownership system.

CSO: 4006/10

NATIONAL POLICY AND ISSUES

JINGJI YANJIU CARRIES REPORT ON PRC RURAL DEVELOPMENT

HK241027 Beijing JINGJI YANJIU in Chinese No. 7, 20 Jul 85 pp 3-18

["Economic Studies Report" by the Chinese Rural Development Questions Study Group: "The New Growth Stage in the National Economy and Rural Development"--Excerpts of a periodical studies report on a major project of philosophy and the social sciences conducted by this group during the sixth 5-Year Plan period. Written in April 1985--Passages within slantlines denote words underlined; for clarity and to avoid repetitious typing all references have been listed at the end of the item]

[Text] 1. After six years of successful transformation, China's rural areas are now facing a new situation. At present and for some time to come, China's rural areas, with a population of 800 million people, must make a number of important choices in order to continue their economic and social development. Today, in order to appropriately discuss the major issue of bringing about further development in the rural areas, we must not simply understand the rural areas but must consider the issue against the backdrop of the development of the national economy. Obviously, this will make the study of the question of rural development in the new situation much more difficult, but this is a difficulty that cannot, and indeed ought not, be avoided.

2. This report will attempt a preliminary study of the new economic environments confronting the rural areas in their further development. Part one analyzes the basic pattern of economic growth in recent years. Part two points out the salient structural problems through a description of the present level of consumption and market features. Part three puts forth the concept of "the new growth stage of the national economy" and portrays the special features of the new growth stage of China's economy with reference to international experiences. Part four passes judgement on major choices that our country is confronted with in its rural development during the new economic growth stage and points out in particular that these choices will produce far-reaching influence for a considerable period to come.

3. This report is a summary of several special reports. These fruits of research mainly /provide/ the basis for studying the /problems/ of rural development in the period ahead, but /do not provide the answers to these problems/. It must be pointed out that the accuracy of these overall



judgements made on the basis of investigations conducted on rural problems and results obtained from research in other fields in recent years is quite limited. We can only confine ourselves to problems that are within our scope. Thus, this report has to be revised, modified, and amended with an understanding gained from other angles and with a fuller analysis.

#### Part One: An Analysis of the Major Motivating Factors of Economic Growth Between 1979 and 1984

4. Between 1979 and 1984, China's gross social output value increased at an annual rate of 8.96 percent and national income increased at an annual rate of 7.92 percent on the average, up 1.03 percent and 1.94 percent respectively compared with the average annual growth rate of the 26 years prior to 1978. In terms of per-capita national income, average annual growth rate went up from 3.9 percent to 6.6 percent, indicating features of rapid economic growth (see notes 1 and 2 at the end of this report.)

The motivating force for economic growth in recent years mainly comes from the release of economic potential accumulated by the original structure of the national economy. Because of the egalitarian practice of everybody eating from the same big pot and the heavy industry structure, an immense possibility for increasing production was held back in the field of supply and a huge domestic market was suppressed in the field of demand. Regular readjustment and the new factor of structural reform have triggered off the release of these two latent potential forces.

In the last six years, a series of new phenomena emerged in the national economy. The most obvious of these were the drastic changes in the rural economy, increased urban employment, and housing construction on an unprecedentedly large scale. The overall features of the national economy began to undergo changes. From centering everything on accumulation, the economy came to be guided by consumers' demands. Similar affects of readjustment were also seen in the early 1960s. What makes the present readjustment so different is that reform of the original economic pattern and of economic structure were begun during the process of readjustment.

The reform was first "ignited" in the rural areas. The system of contracted responsibilities with payment linked to output declared the death of the practice of "everybody eating from the same big pot" and brought about a substantial increase in the supplies of agricultural products. Between 1979 and 1984, the total value of agricultural production increased at an average annual rate of 8.98 percent. In crop raising, the average annual growth rate was 6.61 percent. Since peasant households became independent commodity producers, the stimulating function of pricing greatly increased. Basic agricultural products, sold at a higher price, could be purchased without restriction. This, plus the gradual implementation of flexible policies in marketing, resulted in an unbelievably high growth [word indistinct] the production of commodity grain and cotton. Between 1979 and 1984, grain production increased by 34 billion jin and cotton by 13 million dan a year on average. Per-capita grain production increased from 637 jin to 790 jin and per-capita cotton production increased from 4.5 jin to 11.8 jin. (see notes 1 and 2.)

The sharp increase in supplies of agricultural products led to the sharp increase in peasants' cash income. In 1978, the cash income obtained by members of rural communes and production teams throughout the country from sales of products was 58 billion yuan. By 1984, such income had increased by 92.1 billion yuan to 150.1 billion yuan, the average annual rate of increase being 17.2 percent (the average annual rate of increase for the 1958-78 period was 5.5 percent.) Between 1978 and 1983, peasants' net cash income increased by 24.2 percent annually from 38.1 billion yuan to 112.7 billion yuan. (notes 3 and 4.)

The increase in peasants' cash income constituted a major factor for the expansion of the domestic market. According to our corrected figures, between 1978 and 1984, the total volume of retail sales increased by 179.8 billion yuan, of which about two-thirds was contributed by the peasants. In 1984, peasants accounted for 52.5 percent of the society's purchasing power.

Thus, market demands spurred industrial supplies. Between 1979 and 1984, China's total value of industrial production increased at an average annual growth rate of 8.88 percent (note 1). Many factors contributed to this increase, though it did have a lot to do with the expanded flow of agricultural means of production and basic articles for daily use shipped to the rural areas (including goods processed from primary agricultural products). Peasants' cash income was also channeled into industrial production. A direct result of this was increased supplies of industrial goods. Between 1979 and 1984, the output value of township industries throughout the country increased at an average annual growth rate of 17.9 percent. By 1984, the output value of such industries had already reached 103.1 billion yuan, or 13.6 percent of the country's total value of industrial production.

5. The main flows in China's economic growth between 1979 and 1984 can be expressed as follows:

(a) The growth in the supplies of primary agricultural products contributed to the growth in peasants' purchasing power and also contributed directly to the overall economic growth spurred by market expansion.

(b) The growth in peasant's purchasing power [word indistinct] increase in investment in urban housing construction, and the increase in urban employment and urban residents' income all contributed to the overall economic growth spurred by market expansion.

On the basis of relevant data, we have correctly worked out the share accounted for by various major independent variables in the overall economic growth. Between 1979 and 1983, only 21 percent of the increase in gross social output value was accounted for by the growth in accumulation. The remaining 79 percent was accounted for by the growth in consumption. The peasants were responsible for 64 percent of the additional consumption, and 56 percent of the additional accumulation (only counting investment in rural housing construction). To sum up, the growth in peasants' consumption and accumulation accounted for over 62 percent of the overall economic

growth. In other words, of the close to nine percentage point average annual increase in gross social output value in recent years, rural economic development contributed between five and six percentage points. The extraordinary growth in primary agricultural products constituted the main motivating force for economic growth, and this was a basic feature of the economic growth pattern between 1979 and 1984.

6. The basic prerequisite of the above-mentioned growth pattern was the long developed shortage of agricultural products. However, this prerequisite was eventually shaken by the growth in accumulation. Overall, a low level of surplus first appeared in 1983. To say the least, this was the first time in contemporary history that China was suddenly confronted with a "storage crises" over basic agricultural products. If we continue to implement the policy of unlimited purchases at higher prices, it is estimated that in 1986 total grain surplus will amount to 200 billion jin of unprocessed food grain. This means that the state will have to expend 40 billion yuan on the purchase, of which subsidies paid directly out of financial appropriations to augment price increases will amount to 14 billion yuan. Obviously this is beyond the current purchasing power and financial strength in China. Dictated by demand, the momentum of high-speed growth in crop raising will gradually slow down in conformity with the law of development. In fact, if we can continue to successfully check the unplanned growth of population, excess grain will increase at an average annual growth rate of three percentage points between 1985 and the year 2000 as far as domestic demand is concerned. It is forecast that taking the total grain output of 1984 as the base, if grain production increases at an average annual rate of 2.5 percent, China's grain output will reach 1,208.7 billion jin by the year 2000. Assuming that China will have a total population of 1.25 billion by that time, per capita grain output will be 976 jin. After deducting 108.7 billion jin for use as seeds, for brewing wine, and for other industrial purposes, there will still be 1,100 billion jin of grain left, or 880 jin for per capita consumption. This means that we will be able to meet the per capita need of 500 jin of grain and 100 jin of meat, which is equivalent to the food consumption level in the United States, the Soviet Union and other countries when per-capita gross national product is around 1,000 dollars. Thus, it is economically unsound to maintain the 5 percent rate of growth in grain production attained in the last 6 years. The same holds true for cotton production. Thus, we are now faced with this acute problem: If a new economic growth pattern does not develop in the rural areas, the principal stimulant of the original growth pattern may develop into a major motivating factor for economic recession.

7. Can the pattern of economic growth between 1979 and 1984 be maintained? How many possible ways are there to change this pattern? All these questions involve income, consumption, and the market. We must pass judgement on the level of consumption already attained, and make a rough analysis of the present market features. This is not only the key to understanding why the national economy took a certain turn in the course of high-speed growth, but is also the key to mastering the new choices confronting us at this turn.

Part Two: The Consumption Level of Chinese Residents and Market Features at Present.

8. Seen as a whole, the stage of necessary consumption when all people care about is to have enough to eat and wear has ended.

Between 1979 and 1984, national income per capita increased at an annual rate of 6.59 percent. National income per capita exceeded 400 yuan in 1982, and reached 532 yuan by 1984. The consumption level of residents in the whole country increased at an average annual growth rate of 10.48 percent from 175 yuan in 1978 to 288 yuan in 1983. According to livelihood survey data, in 1983, 7.6 percent of rural households had a per capita income below 150 yuan, whereas less than 3.6 percent of urban worker families had a per capita monthly income below 25 yuan (notes 1 and 2).

At this income level and rate of increase, the actual consumption level and structure of residents in China are as follows:

1. On average, each person took in 2,877.4 large calories, 82.8 grams of protein, and 47.2 grams of fat a day (note 1). This calorific intake exceeded by 22 percent the calorific intake standard for the Chinese (2,360 large calories) (note 6) worked out by the UN Food and Agricultural Organization, and exceeded by 16 percent the rational calorific requirement of Chinese people (2,480 large calories) (note 8) worked out by the Chinese Physiology Society. The protein intake also exceeded the world average (69.4 grams during the 1978-80 period) (note 5). Only the fat intake was below the world average.

2. Per capita cloth consumption reached 31 qi [a unit of length equivalent to 1/3 meter, an increase of nearly 30 percent over 1978 (note 1). Clothing expenses increased rapidly in absolute terms. However, the percentage they accounted for in the consumption structure was relatively stable--14 percent in the urban areas and 11 percent in the rural areas (note 1).

3. The total consumption of goods for daily use increased rapidly and began to account for a higher percentage in consumption expenses. Of the total volume of the retail sales of consumer goods, sales of goods for daily use, cultural and educational items, and books, newspapers and magazines increased at an average annual growth rate of 16.95 percent between 1979 and 1983. This growth rate was obviously higher than that of other types of commodities (note 1).

4. Housing per capita was 5.9 square meters in the urban areas and 11.6 square meters in the rural areas, up by 40 percent and 43 percent respectively over 1978. The proportion of housing expenses of the rural populace increased from 3.2 percent in 1978 to 11.1 percent in 1983. Investment in urban housing by state-owned units in 1983 was 319 percent that of 1978. Total housing investment in 1983 (including private housing in the urban and rural areas) accounted for 8.8 percent of the volume of disbursement of the national income (note 1).

Because the actual consumption of the urban populace was largely subsidized by the state, the Engel coefficient derived from livelihood surveys was higher than the actual figure. After making the necessary corrections, the

proportion of per capita food expenses was about 40-45 percent for worker families in the urban areas and 50 percent for peasant families. The corrected numerical values show that the proportion of food consumption in our country is much higher than in countries with the same income level as ours (below 40 percent).

9. Making analysis through the use of other quality of life indexes and drawing comparisons with international standards will help us better understand the actual living standards of the Chinese people. According to World Bank statistics of 126 countries, each with a population of at least 1 million, China's per capita gross national product ranks 102nd and is classified as a low income country (one with a per capita gross national product below \$410. However, Chinese people's per capita calorific intake ranks 62nd, infant mortality rate ranks 60th, adult literacy rate ranks 47th, life expectancy ranks 46th, and the birth rate ranks 32nd. /In all these, China has reached the level of middle-income countries/ (notes 6 and 7). China's place in the world in terms of "quality of life indexes" is much higher than its place in terms of per capita gross national product.

We can say that it is precisely on account of the economic growth in recent years that we have been able to universally put to an end that stage of necessary consumption when all people care about is to have enough to eat and wear. Following the termination of this stage, efforts to expand the production of primary agricultural products and low and medium-class manufactured goods will no longer affect economic growth in quite the same important way. That is to say, the major feature of economic growth will no longer be development spurred by the satisfaction of basic consumption needs. This is indeed an important qualitative change.

10. On the basis of having more than enough to eat and wear, new consumption features have quietly yet irresistibly found their way into the Chinese people's livelihood. Direct impression as well as statistics and surveys all indicate that highly optional daily necessities are generally available in the urban areas and are being made available to the rural areas. Non-essential commodities are also spreading from the cities to the rural sphere of consumption. The most concentrated expression is that the demand for different types of consumer goods has produced changes in income elasticity. On the whole, the income elasticity for the urban and rural populace on foodstuff has dropped to around 0.7 (of this, the portion for nonstaple foodstuffs in cities is larger than 1). The income elasticity for goods for daily use, housing, and certain services is larger than 1. Of this, the income elasticity for housing and durable consumer goods is higher than 3.

The general trend of changes in the consumer market is that the rate of growth in the sales of daily necessities will gradually slow down while the rate of growth in the sales of nonessential commodities will soar. Between 1977 and 1983, the volume of retail sales of 27 types of daily necessities increased by 9.1 percent annually on average (that of other commodities increased by 16.8 percent). Its proportion in the volume of the retail sales of consumer goods dropped from 40.6 percent in 1978 to 32.7 percent in 1983. The proportion of the three durable consumer goods--wrist watches, bicycles,

and television sets--in the volume of retail sales of articles for daily use and of cultural and educational items increased from 16.3 percent in 1978 to 26.8 percent in 1983 (note 3). The proportion of the volume of retail sales of the 15 most basic goods in the volume of retail sales of consumer goods in the rural areas dropped to 9.5 percent in 1983.

11. In a situation where the development of the commodity economy is extremely limited, the disappearance of old consumption features and the emergence of new ones do not take place as directly and smoothly as one would wish. The features worthy of our attention in China's consumer market are as follows:

(a) The mechanism governing the supply of and demand for daily necessities is far from agreeable. For a long time, major daily necessities have been subject to mandatory production, unified purchase and sales, price control, coupon rationing and subsidies. Strictly speaking, they are not commodities. As people's demands for daily necessities are increasingly satisfied, consumption will be diversified. The original pattern will no longer be able to quickly and precisely transmit information on demand in order to cater supplies to demands and rationally reallocate resources. For example, the high Engel coefficient is a glaring example of how administrative intervention in the demand for daily necessities has rendered it impossible for society to promptly understand the true demand for daily necessities. This has delayed the transition to a new stage of consumption.

(b) Although the consumer's purchasing autonomy is far from adequate, the "hot spot" of purchasing power has still been diverted from daily necessities to nonessentials. Since consumer subsidies for as many daily necessities are implied in the price, buying less means giving up some of our welfare. On the other hand, the supplies of nonessentials are restricted. Moreover, price cannot properly reflect the supply and demand situation. Very often prices were quoted, but the goods were not available for sale. Sustained shortages developed. Thus, purchasing policies for daily necessities and nonessentials alike were affected by distorted signals. But, in spite of everything, the "hot spot" of purchasing power has already been diverted. Although grain production only increased by 4.9 percent a year on average, a surplus was still reported. On the other hand, the supply of television sets still falls short of demand although the monthly output of television sets is already 43 times the 1978 annual output. This situation is quite similar to the first consumer revolution in Japan during the 1950s. We could say that if consumers have more choice, features of the above-mentioned diversion of "hot spots" will appear much sooner and more conspicuously.

(c) The structural problems of the market have become quite obvious. Since 1978, total surplus purchasing power has been growing at an average rate of 29.5 percent a year, greatly exceeding the average annual growth rate in residents' cash income and consumption expenses (note 3). Although this surplus cannot be entirely translated into actual purchasing power, surveys and analyses on the purposes of saving money indicate a strong tendency to buy when the opportunity arises.

While tens of billions of yuan is available for purchases and salable goods are not available, unsalable goods worth tens of billions of yuan are stocked in warehouses. Long-term shortage and long-term overstocking exist side by side. It seems that there is a lack of sufficiently strong signals to notify society to divert the resources expended on surplus goods to the production of goods in demand. Also, a production structure capable of actively responding to such signals has not yet developed.

(d) Another important feature is that the glut of daily necessities, the shift in the priority of purchases, and the structural problems of the market all take place swiftly and show concentrated expressions. Just as the shortage of grain and cotton was being publicized, it was suddenly discovered that there were not enough warehouses. Purchases of the "old four major articles" dropped from the 1980-82 peak (with annual increases in the volume of retail sales reaching double digit percentage points) to the 1983 trough (for example, from an increase of 17.9 percent in the previous year, sales of radio sets dropped by 15.2 percent; from an increase of 23.0 percent in the previous year, sales of sewing machines dropped by 10.6 percent) (note 3). This caught many enterprises which were stimulated by "signals of prosperity" unawares. At present, the tide is surging towards new household electrical appliances. On the basis of survey findings, it is reckoned that urban and rural residents have 30 billion yuan of cash ready to be spent on the "new six articles" (recorders, television sets, washing machines, refrigerators, electric fans and cameras), of which 24 percent is intended for the purchase of color television sets.

[Sentence indistinct]. The life span of popular products is too brief: When first introduced into the market, reaction was not strong, but this was followed by rapid swelling and expansion. Generally speaking, the more durable the consumer goods and the longer the industrial chain, the longer it takes to develop the productive capacity. Because the purchasing peak comes too quickly and purchases are concentrated on certain items, they cannot spur on domestic industries. By the time all the localities vie to import the relevant manufactured goods and production lines, the market has already become saturated and a new surplus is imminent. We refer to this situation as "synchronous shock."

The causes of "synchronous shock" are rather complicated. The main reasons may be summed up as follows: The egalitarian distribution of income has produced a consumption process which is without any layer or gradient. Because the mechanism governing the supply of and demand for daily necessities is far from agreeable and many important consumer channels have not been yet opened (such as urban housing), the normal growth of the demand for certain things is hampered. Because of the unitary structure of social intercourse, consumer blocs with their own characteristics have not developed among people of the same income group. In addition, poor consumption illustration and guidance have encouraged the popular mentality of blindly following others.

The above features of the consumer market not only reflect that our national economy needs a structural reform, which is long overdue, but also reflect the difficulties involved in completing this structural reform.

12. Consumer demands in China have entered a new period of the rapid increase in the demand for non-essentials. This is an important turn in China's economic development. It is precisely this turn that has called for a major change in the pattern of economic growth. Because the market mechanisms are not well-developed and the macro-regulatory mechanisms are not perfect, the above-mentioned trend of evolution not only cannot fully assert itself half of 1984, shortages were again reported in some markets. Rush buying occurred in a number of cities, and at times even daily necessities were affected. This led to the assertion that total demands had inflated. The emphasis of study and of policies were thus shifted to the control of total volumes and the question of structural reform was shelved. Due to the difference in the method of analysis, people felt uneasy about minor market fluctuations although the conclusion about the surplus of daily necessities did not have too many supporters to begin with. However, it can still be seen that factors such as the drastic increase in the amount of money put into circulation have not changed the basic, or structural, problems of the market. Neither have they changed the fact that our industrial structure and product mix are seriously out of keeping with the composition of consumer demands. The hustle and bustle only concealed the urgency of the need to fundamentally reform the industrial structure and laid bare more serious problems concerning market mechanisms and mechanisms governing supply and demand. This reminds us that unless we carry out an overall reform of the economic structure and its operating mechanisms, there is no way that we can successfully complete the structural reform. The control of total volumes is naturally very important. However, if we over estimate the seriousness of the /imbalance of total volumes/, we will end up devising policies aimed at quickly restoring the balance by means of short-term actions. When the confusion is over, the structural problems with the economy will remain as before. Thus, it seems that we cannot reduce the present problems to problems of macroeconomic control, much less can we confine the aim of macroeconomic control to the restoration of balanced total volumes under the original structure. China must seize the opportune moment to launch the restructuring of the economy and, with this in mind, further promote the reform of the existing structure and mechanisms. We should see that structural problems can be resolved even when total supplies and total demands are not balanced, and that it is usually when the existing structure cannot operate smoothly that the public will feel the urge to establish a new structure and new mechanisms. In this sense, the most dangerous thing is not the imbalance of total volumes, or even "runaways" to a certain extent, but our failure to grasp the opportunity to reform the economic structure through the structural reform in the face of such an imbalance.

### Part Three: The New Growth Stage of the National Economy

13. From the above analysis, we can see that although changes in the high-speed economic growth in recent years were abrupt, there were profound reasons for them. If we say that the economic growth in recent years was chiefly prompted by the expanded flow of primary agricultural products and low-grade manufactured goods, such a stage of development has, on the whole, come to an end following the profound changes in consumer demands. China's economy can no longer embark on a so-called "takeoff" in accordance with the



1979-84 growth pattern. The pattern and rate of future economic growth will, to a large extent, depend on whether or not we can find new motivating factors and develop a new industrial structure to satisfy new consumer demands. Our national economy is now heading toward a new growth stage with major structural changes as its principal features.

Heading toward a new growth stage is an important turn without any parallel in the Chinese economy. Our existing economic structure and systems, including the regulatory mechanisms and even the way of life and the concept of value, will all be confronted with new challenges. In order to clearly confront the new opportunities and the new choices to be made in our rural development against such a backdrop, we must analyze the characteristics of the new growth stage of the Chinese economy in the light of international experiences.

14. Research has already indicated that a regular pattern exists between per capita income and structural changes. According to statistics based on data on economic development in 107 countries, the stage where per capita gross national product is between \$265 and \$1,075 coincides with the period of the most rapid structural changes in these countries. The difference in the size and natural resources of these countries affects the avenues for structural changes even when their income level is still relatively low. Take the maximum speed for realizing industrialization (measured by means of the growth rate of the manufacturing industries in proportion to the gross national product), for example. Big countries can attain industrialization with an income level of \$270 (the 1970 dollar, same below), while small countries with little resources and small countries with rich resources need to reach the levels of \$630 and \$580 respectively. It can thus be seen that big countries favored with huge domestic markets can reach the stage of the most rapid changes in the structure of output value ahead of other types of countries (note 9).

On this count, the growth patterns of different countries are quite similar. This is because the relationship between the specific characteristics of demands and the level of income is relatively stable. For example, the raising of income level will lead to a drop in the proportion of consumption of foodstuffs and an increase in the proportion of consumption of manufactured goods. This goes for all countries. Another reason is that the accumulation of capital is usually carried out at a rate faster than that of productivity growth. There are also certain resemblances between the demands of different industrial sectors for key production factors. In addition, common technological know-how is also an important reason for the similarity. Thus, the above-mentioned statistics and conclusion on structural changes offer an invaluable guideline for countries that are lagging behind.

If we further summarize the general situation in big countries, we may be able to obtain more information that can help us better understand the special characteristics of our country. H. Chenery worked out a "standard structure" on the basis of the statistical data of over 100 countries and derived a general structure of big countries after analyzing the data of 16

semi-industrialized big countries (mostly countries with a large population that have reached a middle-income level and attained substantial progress in industrialization). He then compared the general structure of big countries against the "standard structure" and found the disparity between the proportions of different industries in the gross national product (note 10):

	Proportion of Primary Industries	Proportion of Industries as a whole			Proportion of Service Trades	
		Small Industries	Light Manufacturing	Heavy Manufacturing	Building and infrastructure	
"standard structure"	20.6	39.5	15.8	8.6	15.1	39.9
general structure of big countries	16.4	45.3	16.6	13.0	15.7	38.3
disparity	-4.2	5.8	0.8	4.4	0.6	-1.6

An important conclusion drawn from the comparison is that the size of a country has little to do with the structure of domestic demands at a given income level, but a country with a huge domestic market can attain a sizable economy and develop diversified industrialization at a fairly low income level.

All countries have economic structures that bear their own individual character. Thus, different degrees of deviations exist between the economic structure of a country and the "standard structure" or the general structure of big countries. There are two types of deviations: Normal deviations produced by differences in natural resources and the size of countries, and abnormal deviations produced by the choice of development strategies, systems, and tactics. If mastered well, both types of deviations can help deepen our understanding of the individual character of the economies of different countries. This should provide us with useful inspiration on the choice and appraisal of future development strategies.

15. China's conditions are very special in every respect. In international practice, a country with a population of over 20 million is usually referred to as a big developing country. Judged by this criterion, China is simply a huge country. What is particularly special is its road of development, which is determined by its national conditions. It is beyond the scope of this report to describe this process in full detail. However, if we are to record some of the most obvious "contrasts" from the perspective of structural reform, we may perhaps be able to see many of the strong points and strengths that we have over other countries, as well as the many special problems and difficulties that confront us.

(a) China has attained a fairly high degree of industrialization on the basis of a fairly low per capita income level at quite an early date.

In 1977, China's industrial output value (including the building industry and the infrastructure) accounted for 44 percent of the gross national product. During the same period, countries with such a high percentage included Spain (38.7 percent), Yugoslavia (44.6 percent), South Korea (33 percent), Mexico (35 percent) and Argentina (43.2 percent). At that time, the per capita gross national product of these countries was generally over \$1,000 (that of South Korea was only \$820, but that of Spain had already reached \$3,190 and those of Yugoslavia and Argentina were close to \$2,000). The per capita gross national product of our country was only \$200 then.

In terms of the proportion of the manufacturing industries in the gross national product, the 1979 figure was 35 percent, which was 1.7 times higher than in the low-income countries (13 percent) and also much higher than in the middle-income countries (25 percent) and countries with industrialized market economy (27 percent).

(b) In the manufacturing setup, too much weight was attached to departments devoted to meeting the demands of the traditional heavy industry structure and too little weight was attached to departments devoted to producing final consumer products.

According to material of the late 1970s, China's industries were made up mainly of heavy industries, 64.1 percent. In fact, industries manufacturing machines, equipment, and metal goods alone accounted for 27.3 percent, a figure much higher than those of India and South Korea. Considering that in the most well-developed countries, durable consumer goods (particularly small cars) are included in this statistical item, the proportion of China's manufacturing industries seemed very large. Meanwhile, the proportion accounted for by the food, beverages, and tobacco industries (11.4 percent) was smaller than the lowest of the figures of other countries. The proportions of the garment, leather goods, and shoe industries (3 percent) and of the wooden furniture manufacturing industry (1.2 percent) were also smaller than those of developing countries. That of the textile industry (13 percent) was roughly the same in South Korea and India. China was one of the few developing countries that could reduce most of the capital construction equipment it needed and had its own well-developed iron and steel industry. The situation has changed somewhat after years of readjustment. But even at present, surplus productive capacity for the production of intermediary products and the overstocking of investment goods are still alarming.

(c) The percentage of industrial output value, particularly that of the manufacturing industries, is extremely high, and the vivid characteristics of traditional countries have for a long time been preserved in the employment structure.

In 1952, the rural labor force accounted for 88 percent of society's total labor force. In 1983, it still accounted for 74.5 percent (note 1). At present, 80 percent of our country's population are still engaged in agriculture and live in the countryside. This shows that formerly China's high-speed industrialization was carried out against the background of the separation of the urban and rural areas. While industrialization advanced

at a high speed in the urban areas, the huge rural population, associated with a small share of the national income, maintained a very low level of division of labor and of socio-economic development. The high percentage of net industrial output value and the high percentage of agricultural "employment" coexisted for a long time, something which rarely happened.

(d) A high rate of accumulation possible only in well developed countries has all along been maintained, but the rate of utilization of such a high accumulation has not been raised for a long time.

In the last few decades, China maintained an average rate of accumulation of over 25 percent, equivalent to the accumulation level in Japan when per capita gross national product was \$500 or in an average well-developed country when per capita gross national product was \$1,500. An analysis of China's industrial output value, fixed assets, movement of labor force and other relevant data shows that the increase in industrial output value between 1957 and 1979 was mainly due to the increased input of key production elements and was not the result of improved efficiency of this input. Self-motivating mechanisms capable of effectively promoting technological progress were lacking in the economic organism.

(e) The process of industrialization was not accompanied by a corresponding development of commercialization.

In our country, the mobility of key elements of production was very poor and general contract relationships and new organizational structures were under-developed. In particular, the active role that market mechanisms can play in the allocation of resources was checked. Not only was there great disparity in the productivity of key elements and overall productivity between different regions and industrial sectors, but enterprises of different scales and technological levels also coexisted peacefully for a long time within the same sector and trade. This made it impossible to achieve better efficiency on a larger scale through measures to intensify the division of labor and substitute resources. Thus, existing resources could not be fully utilized and unreasonable demands were continuously being generated. This resulted in a very high investment coefficient.

(f) Non-cash income and non-commercial consumption occupy an important place in the allocation of income.

The proportion of non-commercial consumption in consumption funds was 33.0 percent in 1978 and 26.7 percent in 1983. This not only distorted the true consumption level and signals of changes in the demand structure, but resulted in fairly complicated relationships of vested interests, so that all structural reforms met with considerable friction.

Possibly it is mainly because of these characteristics that China has been unable to bring about a corresponding increase in gross national product although it has successfully pushed forward high-speed industrialization. Between 1960 and 1977, the proportion of China's industrial output value in the gross national product increased by 14 percent (countries comparable

to China during this period included South Korea with 16.5 percent and Thailand with 7.8 percent). However, the average annual growth rate of per capita gross national product was only 2.7 percent (those of South Korea and Thailand for the same period were 7.1 and 4.5 percent respectively) (note 10).

16. The above special features indicate that China had two distinct advantages over others: First, its ability to mobilize resources was very strong. For this reason, China was able to establish a comprehensive industrial system on the basis of "poverty and blankness" and was one of the first countries to divert its overall resources to industrialization after the war (it was estimated that China's rate of transferring general resources to industrialization was 20 percent, second only to South Korea's 33 percent and more or less equal to the 18 percent attained by Thailand and Turkey). Second, its degree of social organization was very high. This is why China was able to preserve for a long time a stable social environment and a form of welfare that provided for people's subsistence on an equal basis while pushing forward high-speed industrialization. A huge administrative network extending from key cities to the remote countryside was established for the allocation of key production elements.

Because of these two advantages, China could fully enjoy its benefit as a big country: Any figure which appears negligible in per capita terms becomes significant when multiplied by China's 1 billion population. The fact that China's per capita gross national product was a mere \$200 but its industrial rate was as high as 44 percent was a "super-nation effect" that many countries cannot even imagine.

We also had obvious shortcomings. This could mainly be seen from our weakness in organizing economic activities on our own and our poor efficiency in allocating and utilizing resources. These two shortcomings had something to do with the course of action we chose. After basically setting up a system for industrialization, we relied on the demands generated by the industrial system itself to promote industrial development all these years and were slow in changing to the direction of relying on the huge demands generated by all-round economic development and higher consumption level to push forward the intensification of industrialization. The structural requirements necessary for the latter direction of development cannot be provided by traditional socialist economic patterns. The most serious problem was that 80 percent of our population was cut off from the direct process of industrialization, so that these people could not play an active part in the restructuring of China's economy.

Continuous accumulation of shortcomings will produce great inertia. With so many obvious irrationalities, the "corrective effect" [word indistinct] the economic organism of our country will produce an unimaginably positive effect in our economic life once policy changes are made.

When history provides us with an opportunity to make new choices, there is no reason for us to forget our shortcomings. But then neither should we overlook our strong points.

17. Through retrospection and comparison, we can obtain a precise understanding of our new economic growth stage that has structural changes as its core. The basic economic content of the so-called new growth stage is that economic growth must be chiefly motivated by the growth of nonessentials. This is a general trend that has been proven by the experience of other countries. However, the way China enters this growth stage is not quite the same as in developed countries. Rather than merely relying on our own scientific, technological, and cultural progress, we cannot but seek help from foreign technology and know-how and be strongly influenced by external consumption patterns as were many developing countries. Thus, the structural changes we make during the new economic growth state /may possibly/ become a process of consciously effecting a turn toward a higher level of development through the choice of development strategies, structural reform, policies and measures.

An important characteristic of nonessentials is that they are highly optional and substitutive in terms of consumption. In terms of production, different options have different efforts on the restrictions of resources, the motivation effect of industry, the elasticity of employment and the growth of national income. The main difficulty of our country during the new growth stage lies in the fact that while we must rely on demands for nonessentials to spur economic growth, we must also avoid letting such demands go beyond the capability of our resources and thus adversely affect China's industrial growth.

The main economic problem confronting our country during the new growth stage is how we are going to combine structural changes aimed at meeting demands for nonessentials with positive and full employment for the vast population. A basic fact is that we have several hundred million peasants who have left their fields and wish to join other industrial departments, but cannot especially enlarge the proportion of the manufacturing sector in the economic structure. This kind of structural change is no longer "industrialization" in the general sense, but the heightening of the industrial structure in conformity with China's national conditions. ("The heightening of the industrial structure" has two levels of meaning: 1. The dynamic process of the transfer of economic resources from primary industries to secondary and tertiary industries. 2. Along with the unfolding of this process of macroeconomic transfer, changes in the product mix and in the technological makeup will take place in every trade, and these changes will lead to the raising of the overall productivity of resources while meeting higher demand and income elasticity.) Unlike many other countries, China, while carrying out structural changes, must launch and complete the reform of its system and operating mechanisms. The coupling of structural changes with the reforming of mechanisms indicates that China will be confronted with very difficult problems during the new growth stage. This requires that we rely on our profound understanding of our own country and size up the situation in order to work out the best solution.

#### Part Four: Development and Prosperity Through Choice

18. In the face of a major new turn, we must make a number of new choices. What we want to discuss first is how China is going to design its dynamic image for the new growth stage.

According to World Bank sources, China's gross national product in the early 1980s was approximately \$279 billion, ranking ninth in the world. By the end of this century when the goal of quadrupling the total industrial and agricultural output value is attained, China will become one of the world's top six, or even top four, nations in terms of overall strength. However, the prospect is quite different in terms of per capita level. According to statistics of 126 countries and regions, each having a population of at least 1 million, China, with its per capita gross national product of \$300 plus, ranks 102nd in the world and is classified a low-income nation. There are at present 77 nations with a per capita level of over \$800 (of which 68 have surpassed the \$1,000 level) (note 6), and they are developing. By the end of this century, China's per capita level will have reached \$800. Generally speaking, this is only considered a lower-middle level and cannot usher China into the world's top 80 nations. This rough corrected estimate reminds us that we cannot truly put ourselves on a par with the rest of the world in terms of per capita economic strength merely by striving hard in the next decade or so. /We cannot hope to win by a sprint. Instead, we must fully prepare ourselves materially and spiritually, from structure to mechanisms, for a long-distance race./ In the arena of the global economic race, it seems that China should consciously cultivate the image of a fine long-distance runner. If it so happens that China belongs to the "late-maturing" category in the process of global modernization, it would be a bad strategic choice if we jeopardized our long-distance form for the sake of getting a mere place in a short-distance race. We must be particularly watchful on this question.

If we go into the objectives of strategic choice in greater depth, it is not hard to discover that the same \$800 per capita level may generate vastly different states of affairs. In so far as continuing to advance on the basis of the \$800 level is concerned, these will provide very different new starting points. China's strategic objective definitely does not stop at the \$800 per capita level we hope to attain by the end of this century. The true outcome depends on how we continue to advance after attaining the \$800 level. Thus, we must attach great importance to the /state of affairs/ when the \$800 level is attained and must attach great importance to the need for our present major choice to open up a broader range for our next choice.

19. The new economic growth stage before us is an era of choice.

(a) In the face of increasingly diversified demands for nonessentials, we have to make a choice as to what will take priority. The successful experiences of many countries (particularly those of Japan) in recent times have shown that different choices in regard to the priority given to the development of various nonessentials have had very different effects on the patterns of economic growth.

(b) Developing countries can draw lessons from the road traversed by developed countries and thus avoid repeating certain mistakes. This is what is called "the advantage of developing later." However, if they are not good at making choices, they will lose the advantage of later development. So far, not many developing countries have made the right choice and shortened the gap

between them and the developed countries after resolving the problems of food and clothing. However, there have been quite a few cases of countries making a mess of things by blindly following the consumption and industrial patterns of developed countries. This shows the importance of making a good choice.

(c) The new technological revolution has provided many technological avenues for the solution of one and the same economic problem. The dimensions of these technological possibilities are practically always changing. Thus, the ways in which scientific and technological information are assimilated and the tempo and process of policy making become very important spheres of choice. We still lack the necessary training and experience in this regard.

(d) Structural changes are bound to affect a country's re-evaluation of its own culture and traditions. This is because the traditions which need to be absorbed or discarded in order to meet the demands of structural changes vary from country to country. The analysis of environments, the appraisal of traditions, and the setting up of patterns all involve a difficult choice.

Changes in the economic structure and its operating mechanisms during the new growth stage are like puberty in a young person. Important choices made during this stage often have a decisive effect on future growth. This should help us further recognize the necessity and significance of choices.

At this point, it is important that we bring up for discussion a number of significant choices. These so-called significant choices include the following three main points: 1. They are fairly significant in reality but allow for some choices to be made. 2. They cannot be avoided or bypassed with tact at least in the medium term. 3. Different choices made at this stage may have an important impact on choices made in the future. In short, we must exercise great care in selecting variables for the medium and long term. In a period of change, correctly putting forward questions is perhaps even more important than finding answers to questions. We cannot accomplish this task overnight, but we must try repeatedly to cultivate the necessary strategic consciousness and vision through persevering in practice.

20. In the new economic growth stage, one of the basic economic functions of the rural areas is to consolidate the agricultural product supply bases so that they can withstand the test of the reform of the mechanisms governing the supply of and demand for agricultural products, and to render support to changes in the economic structure in the long run. The second function is to transfer the surplus agricultural productive forces to other sectors of the national economy.

It is evident that this question is very simple in itself. However, considering that different methods of resolving the rural problems have different impacts on the overall economic situation, it becomes another story altogether.

For example, the situation in the rural areas requires that 6 to 8 percent of the peasants must shift to non-agricultural employment. This creates a



very grave problem for an economic structure with an overgrown manufacturing sector.

If the peasants are swift in shifting employment, difficulties in a new sense will be encountered in coordinating the growth of the primary industries and the national economy.

It is thus evident that the simple question is not so simple after all. In order to correctly select, with the interests of the overall economic situation in mind, the ways in which the rural areas are to shoulder their functions during the new growth stage, we have broken down the question into the following eight aspects: 1) The patterns of consumption or ways of life; 2) the supply pattern and industrial layout; 3) the relations between the urban and rural areas; 4) regional policies; 5) the extent to which the economy is going to be opened up; 6) policies in regard to income; 7) the economic activities of the government and enterprises; and 8) organization and self-organization. If these aspects are not properly resolved, the rural areas will have difficulties shouldering their two major economic functions during the new growth stage. The bases of these eight aspects are detailed below.

#### 21. The patterns of consumption or ways of life.

If we compare China's consumption level with those of developed countries, we can easily discover dozens of obvious gaps. Thus, it is not very dependable to compare targets of pursuance item by item (for example, a comparison of meat consumption alone). Instead, we must make our choice on the basis of an all-round comparison.

First, we must /choose the rules/ as to whether we should try to influence and interfere with the formation of consumption demands, or let them take their own course. Second, we must /choose the priority./ For example, whether we should try to catch up with the developed countries in terms of meat consumption, or in terms of communication networks, or try our hands at a bit of everything. Then we must /choose the standard of the quality of life/, that is, whether we should model ourselves after the developed countries, or set our own standards.

Our unique background requires that we choose our own way of life because:

- 1) There is an obvious gap between China and the developed countries in terms of the standard of living.
- 2) The open environment is steadily turning the gap in consumption into an increasingly huge consumer pressure.
- 3) There exist unfavorable limitations in our country in terms of resources and technology. Thus, the question can be reduced to one of which way of life should the Chinese people choose in order to be able to respond positively to gaps in consumption in the long-distance race. In a race to catch up with a country with a per capita petroleum consumption of 10 tons, a country with a per capita petroleum consumption of 0.08 tons must make a clear-cut choice on this question in order to maintain its dignity and confidence and win more opportunities. If we cannot effectively influence and condition the demands for nonessentials during the new growth stage, we

will run into serious problems in the allocation of resources when implementing the correct slogan of "gearing investment and production to market needs."

## 2. The supply pattern and industrial layout.

Besides catering to current market demands for goods and labor, industrial policies must also take into consideration the coordination of big industries in the course of structural changes, the impact on employment and other social targets.

A general characteristic of the production of nonessentials is the lengthening of the industrial chain, and this provides a spur to the development of division of work. Although China has a large manufacturing sector, division of work in this sector is underdeveloped. Thus, during the new growth stage, we must first choose the way to deploy our productive forces between cities and towns and between different regions according to different processing stages.

In the majority of the developing countries, employment grows much faster in the manufacturing sector than in the nonagricultural sector as a whole. However, it is still unrealistic to rely on the manufacturing sector to solve a problem as complicated as unemployment underemployment, and making use of the growing labor force in production activities. It is estimated that in order to absorb the 3 percent annual growth in the total labor force, the manufacturing sector of developing countries must develop at a rate of 20 percent a year (in countries where the manufacturing sector is already absorbing 20 percent of the labor force, the rate has to be as high as between 30 and 35 percent) (note 9). Of course this is by no means easy to attain.

The employment elasticity of the continuous development of China's manufacturing sector can only be understood through a systematic industrial survey. Between 1953 and 1983, China's industrial employment grew at a rate of 5.2 percent a year on the average. In the last 5 years, however, the growth rate dropped to 3.8 percent. It appears that the contradiction between raising the rate of employment and that of productivity has to be resolved by choosing a suitable product mix. People feared that the tide of rural industrialization will lead to a low level of excessive competition in the industrial sphere. As far as the manufacturing sector is concerned, this danger does possibly exist.

The nonagricultural sector outside of the manufacturing sector is where China's hope for increasing employment lies. In recent years, the intake potentials of the mining, building and transport industries are already showing signs that more effective policies need to be selected. The employment figure of our service trades is 7 percent below the low-income countries and 42 percent below the medium-income countries. However, if we ignore the fact that different trades within the service sector have different requirements on their employees, we may entertain over-expectations for the "tertiary industries." Seen in the intermediate term, a quantitative reckoning has to

be made in order to work out how much of the massive working population engaged in the primary industries can directly seek employment in the tertiary industries without creating a "spurious development" in the service sector.

Under conditions of development prompted by structural changes, it becomes all the more important for us to continuously reassess the endurance of China's primary industries as a foundation. At present, new investment mechanisms are taking shape in the rural areas. On this basis, we must conscientiously study agricultural investment policies in the narrow sense. If the economic strength released by policies in recent times is not appropriately diverted to technical transformation in the agricultural sphere, and if the state does not increase its investment in agricultural production, we may be confronted with the problem of "separation" between the big industries during the intermediate stage of structural changes. In the light of our national conditions, we should lay up medium-term policies with respect to the prospects of part-time employment which is so popular in many countries, as well as the questions of expanding the scale of agricultural operation, improving land management, maintaining the ability of agriculture to attract fine people in the intermediate future and developing grassroots-level economic cooperation on the basis of household undertakings which are closely related with part-time employment.

At any rate, it is very difficult for China to achieve full employment in the next 15 to 20 years. Thus, the priority of our choice should be placed on the different types of non-full employment. During the years when employment pressure was heavy, Japan employed far too many workers than were necessary in the commercial and textile fields and in certain processing stages of some manufacturing industries in a calculated move to lower the labor productivity of these sectors in order to attain higher economic efficiency. China should also be able to find its own answers to these questions. What is more important is that relevant social policies and policies of education and training must be formulated in order to maintain the enthusiasm and enterprising spirit of a population which is not fully employed.

It is possible that the question of the redistribution of big industries may be placed on our agenda before the end of this century. At present, the manufacturing sector, industries, and the urban service trades are over-concentrated in regions that are far from the energy bases and are short of water supplies. As a result, only a very small portion of the surplus resources of linear industries that can be absorbed was actually absorbed. In our medium-term strategy, we must make a choice as regards the rehabilitation of our land and the pattern of population migration. As to whether we should adopt the strategy of a "major advance" or proceed in an orderly way step by step, what we should do at this stage is to do some exploratory and preparatory work on the basis of the movement of key elements.

### 23. The relations between the urban and rural areas.

The end of the pattern of economic growth between 1979 and 1984 coincides with the beginning of the radical change in the former economic relations

between the urban and rural areas. The rural areas mainly send primary agricultural products to the cities, and the cities mainly send primary industrial goods to the rural areas. This pattern of intercourse will undergo a major change in the near or intermediate future. At present, many minor aspects already exist in the contacts between the urban and rural areas. For example, many durable light and heavy industrial goods are sent from cities to the rural areas, and processed agricultural products, primary industrial goods (such as mining products) and industrial products with varying degrees of processing are sent from the rural areas to cities. Thus, changes in the near and intermediate future may possibly depend on our choice as regards the structure of the minor aspects of town-country intercourse.

Research has already been completed on the advantages and disadvantages of the distribution of different industries and products and of different processing stages in the urban and rural areas, and people have come up with all kinds of views. Thus, the most important thing is to find out the parameters of certain important products. We should take into consideration the fact that the force of habit where urban and rural areas work behind closed doors to seek their respective "internally generated" development is still strong. Thus, using structural reform to promote the lifting of barriers between the urban and rural areas becomes the prerequisites for the making of correct choices.

During the new growth stage, it is awfully difficult to try to solve the problems of urbanization merely by means of the small town strategy (that is, the peasants leave their fields but not their native place). China's structural changes simply cannot be completed on the present basis of the separation between the urban and rural areas. Decisions in regard to urbanization cannot be completely evaded.

At present, distinction between China's urban and rural population is mainly based on a complete set of welfare benefits such as whether or not people enjoy the use of state purchased grain. It has little to do with the professions and division of work or with the density of the population. Thus, in order to eliminate the complete cut-off between the urban and rural areas, we must proceed by reforming the urban structure composed of the "urban population." We must also build and extend a number of new cities that are made up mainly of "rural population." The peasants may actively partake in the reform of the urban structure. They may also build cities with a new type of relations at promising locations. Seen from this angle, provided that the Chinese peasants are good at making choices in the process of urbanization, they can certainly play a more active part than their counterparts in ordinary developing countries.

In international practice, destitution resulting from the excessive drain of key elements from the rural areas during the process of urbanization is often referred to as a kind of "development disease." Whether or not China can avoid contracting such a disease depends on whether or not we have a sober understanding.

## 24. Regional policies.

Under the pattern of strict planning, we have not truly done away with imbalances between different regions in their socio-economic development. It is a basic fact that gaps between regions have been widening in recent years. It is as yet unclear how much choice we have in this regard.

At present, we must at least study whether or not the lack of coordination between the development of different regions is disappearing, and if so, how. Apparently it is necessary to distinguish between imbalances in regional development and lack of coordination. The main indication of the lack of coordination is the prolonged state of "backwardness and shortage," so much so that a place loses those senses necessary to make correct choices. Individual regions are despaired of in development.

The call for all regional to develop in an unbalanced yet well coordinated way is not merely prompted by social policies and abstract goals of equality. In terms of medium-term development, the present intermediate and backward regions promise a market with the greatest exploitation elasticity. From a realistic standpoint, the substantial disparity in the price of labor between different regions embodies comparative interests, and once these are tapped through division of work between and within regions, all quarters will benefit greatly from them.

The support given by the central authorities to the backward regions in both social and economic contexts will never stop. In this sphere, what we need to choose is the way in which support is given: Should we insist that problems between regions be resolved through trade and hence strive to improve the trading conditions in the backward regions, or should we continue with the practice of noncompensated appropriations through the redistribution of national income. Or, should we combine these two choices to make a new choice?

## 25. The extent to which the economy is going to be opened up.

Nearly all developing countries are confronted with a huge "external impulse." The technological gap between backward and developed countries, the self-preservation developed as a result of technological competition between developed countries, and the "self-circulation" formed by the internal division of work within the high-tech industries of developed countries constitute the three main causes of "external impulse." Of course it is impossible for backward countries to ward off this external impulse by closing their nations to international intercourse. Only by opening to the outside world can a country turn the external impulse into a driving force that can promote the improvement of its industrial structure. However, we may perhaps never be able to close the gap between us and the developed countries if we open up merely to the extent of passively accepting the spread of the "setting sun industries" of developed countries. Analyzed from this angle, the opportunities brought on by "external impulse" are far less in number compared with the challenges it raises.

This international background is common to all. Thus, how each backward country chooses the extent to which it is going to open up its economy is of decisive significance.

The "extent of opening up" includes technological, economic, social and cultural aspects. It can be reduced to two main issues: 1) The extent to which developed countries are allowed to play a part in economic and social life in China; and 2) how and to what extent can China play a part in international division of work, particularly division of work within the high-tech industries.

Very few countries are like China, which has to jump such a wide technological gap over a long period. This has greatly complicated the opportunity costs of relatively different key input elements. In addition, suitable technology can also be chosen from the output angle because the choice of technology is always identical with the choice of products. In this way, "suitable technology" is linked up with the choice for the way of life and for the demand structure.

In short, the choice of technology is by no means purely technical in nature. It invariably includes a basic development objective. The consequences of the coupling of China's unique cultural system with the developed world will not be fully and clearly demonstrated for many years. What must be done urgently at present is to find ourselves some targets in the practice of opening to the outside world for use as reference in the future selection of opening strategies.

## 26. Policies in regard to income.

In the rural as in the urban areas, all we can claim is that we have just cast off egalitarian practices. At present, the Ji-ni [1015 1441] coefficient in the rural areas is slightly higher than in cities. After the launching of urban reforms, on the whole the Ji-ni coefficient will also increase. Such a trend of development has many economic advantages. For example, it stimulates the enthusiasm for labor, forms a demand gradient, reduces synchronous effects on the market, and so on.

However, the public entertains some deep-seated kind of uneasiness towards those whose income has steeply risen within a short time and those who appear increasingly helpless in the dynamic commodity economy. No matter how the nature of this uneasiness is appraised, the contradiction, antagonisms and even certain conflicts in this realm remain and cannot be evaded. By the interim period, this problem will become more pronounced.

The course traversed by some developed countries is that when the Ji-ni coefficient rose from 0.2 to 0.5, the public became very uneasy, and then social policies were implemented to reduce the coefficient to 0.3. Should China adopt the same course of action, that is, concentrate on resolving one aspect of fairness and efficiency at every stage in order to strike a linear balance, or should we think of a dual balance in every move we make?

This question is not too distant from us. In fact, we come across this question in our present efforts to reform the mechanisms governing the supply of and demand for necessities, to plan a new wage system, and to further reform the mode of welfare. The planning of policies concerning nonessentials is closely related with policies in regard to income.

## 27. The economic activities of the government and enterprises.

During the new economic stage, the government, the enterprises and the peasant households are the main bodies responsible for making various choices. The results of these choices are not "strategies" written in books but are steadily manifested as trends in the economic activities of the main bodies. The decisive influence of the economic activities of the government and enterprises is never too great no matter how it is estimated.

The fundamental question is how to make the economic activities of the government and enterprises cater to the needs of the new growth stage. From the above-mentioned choices, we can see the content of the activities of the main bodies. What we want to study here are the ways in which the activities of the main bodies are actually influenced. Since mature methods for analyzing economic activities are not yet available, we must begin our study with a breakdown of the principal factors that influence such activities.

We regard the following as the principal factors that influence the activities of the government: 1) Economic consciousness, that is, how the government looks upon its position during the new growth stage and how it designs its own image in the economic area. For example, does the government take on all the major work or does it willingly serve as a "watchman"? Or does it take the enterprises as the center, adopt a gentle laissez-faire attitude while carrying out active intervention, and play the part of a regulator of order in the course of structural changes? 2) The differentiation of economic functions and the process of policy-making 3) The qualities of cadres and the methods of selecting, supervising, and assessing cadres. 4) Types and means of controlling the economic processes.

Principal factors that affect the activities of enterprises include: 1) Property relations, the central issues being the diversification and dynamic nature of the structure of ownership and the personification of public property. [as published] 2) Budgetary constraints, that is, the choice of budgetary constraints of different severity for different industries and enterprises. 3) The makeup of the motive force of parties interested in starting enterprises 4) The scale of enterprises and their external environments, the salient problem being the growth of markets with diversified key elements.

It is quite clear now that without a fundamental improvement in the conditions of the main bodies that carried out the economic activities, new economic activities that meet the needs of the new growth stage cannot be generated merely by correcting and adjusting regulatory signals (including price signals and non-price signals).

## 28. Organization and self-organization.

This choice, which involves special efforts to develop self-organization mechanisms in the process of organization, carries a meaning that goes beyond the economic sphere.

China is characterized by its high degree of organization. This is responsible for the strong cohesive force of its economic and social activities and consequently its great stability. In the meantime, our high degree of organization lacks a well-developed foundation of self-organization. Thus, our ability to adapt to environmental changes is relatively weak. However, this situation has begun to change following changes in recent years.

During the new growth stage, if we do not relatively weaken the existing organizational links and cultivate self-organization mechanisms, we will have difficulty completing the structural changes and producing new organizations. The difficulty lies in what sphere, order, and degree of weakened organizational relations we should choose in order to facilitate the growth of self-organization mechanisms. What we do not want is to /tolerate the expansion of forces of anarchy and the generation of the "disintegrating effect," thus repeating the mistake of large-scale concentration/ and producing periodical shocks. This problem appears more prominent and important in the Chinese countryside where the degree of organization is relatively weak. In the modernization processes of oriental countries, Japan is noted for its success in bringing its traditional forces into play. How good our country is in utilizing and transforming its characteristic of a strong cohesive force may be seen as a task of paramount importance.

29. Our choices on the above questions will provide the basis of interim policy reserves for rural development during the new growth stage.

Lastly, let us briefly discuss the main conclusions we have reached in our study:

One of the principal motivating factors of China's high-speed economic growth in the last six years is that the sharp increase in the supplies of agricultural products has led to the soaring of peasants' income, which has in turn given a strong impetus to the expansion of the domestic market.

Such a growth pattern can no longer be maintained under the condition of having small surpluses of grain and cotton.

The fundamental reason for such a turn in the course of high-speed growth is that the structure of consumer demands has undergone major changes.

On the whole, China has left the stage of necessary consumption when all people cared about was to have enough to eat and wear, and has entered a new period which sees the soaring of the consumption of nonessentials. The new demand structure requires a new industrial structure, product mix, and regulatory mechanisms to meet its needs.

China's national economy will enter a new growth stage which centers on structural changes.



If we consult the experiences of other countries, we can easily discover [word indistinct] China is now in a period of development marked by rapid structural changes. Due to our unique national conditions and the road of development we have traversed, our structural changes cannot but have many special features of our own.

The most basic difficulty is that we have a large population waiting to be transferred to the non-agricultural sector, but our industrial--particularly manufacturing--sector is already quite large. Thus, China's structural changes can no longer be termed "industrialization" in its general sense, but should be called the heightening of the industrial structure of the national economy. Supplementing these changes are the fundamental changes in economic operating mechanisms.

The new growth stage is a stage when we must be particularly good at making good choices. Whether or not China can achieve long-term development and prosperity by grasping the opportunity to carry out structural changes through the structural reform depends largely on the choices we make during the new growth stage.

To this end, we must carefully design China's dynamic image in the global economic arena. Since we cannot win by sprinting, we must conscientiously and fully prepare ourselves for a long distance race. At present, it is particularly important that we squarely face major problems that cannot be evaded through tact.

The further development of China's rural areas cannot be separated from choices that affect the national economy as a whole. Only by organically integrating the rural problems with problems that affect the overall situation can we properly select the type of basic economic functions that the rural areas can undertake during the new growth stage.

Once long-term development and prosperity have been attained through the exercise of correct choice, the rural economy with a population of 800 million people is bound to exert a profound and positive influence on the new growth pattern of the national economy.

Notes:

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CSO: 4006/10

NATIONAL POLICIES AND ISSUES

GUANGMING RIBAO ON CAUSE OF PRICE REFORM

HK230649 Beijing GUANGMING RIBAO in Chinese 14 Sep 85 p 3

[Article by Wu Jianqi: "An Analysis of the Inherent Causes of Price Reform"]

[Text] Theoreticians have spoken at length regarding the necessity of price reform. These are mostly superficial discussions concerning the irrationality of the original price system. Such talk will easily give people a false impression that the need for reforming the price system stems from the fact that prices were not rationally fixed. As a matter of fact, the inevitability of price reform stems from the inherent demands of objective economic progress. The irrationality of the existing price system is merely the external expression of this kind of inherent movement within the objective process.

As we all know, prices are expressions of value in the form of money, and value is the basis for prices. In fixing prices, we must take value as the basis and must also take into consideration the relation of supply and demand in accordance with the needs of state policies. It goes without saying that factors related to supply and demand and policies concerning this principle vary to a certain extent in different periods. Even value, the basis for prices, does not remain unchanged. The influence of changes in value on the price system is mainly caused by three different things:

1. Changes in labor productivity. Governed by the basic socialist economic laws and the laws of competition in commodity production, the tendency toward technical progress in social production is irresistible. With the progress of technology and the rise in productivity, the labor time needed by society to produce the same kind of commodity will be shortened, and the price of that commodity will be lowered accordingly. If the extent of this change is identical in various kinds of production, it will not have any influence on the ratio of values of various commodities. However, the law of imbalance governing technological progress in actual production makes the changes in value of various commodities differ in a thousand ways. The values of some commodities will decrease more, and those of others less. Moreover, the range of reduction differs greatly among different departments, among different commodities of the same department, and among commodities of the same kind but of different grades. The differences in the direction and range of such changes in value among various commodities will all lead to changes in the ratio of values among them.

2. The impact of new substitutes. Even if social productivity remains constant or changes in labor productivity for various commodities are synchronous, the emergence in society of a substitute for a commodity, having the same consumption purpose, but with a higher efficiency and with less value, will also lower the value of what is substituted, thus pounding at and changing the original ratio of values of commodities. The objective basis lies in the fact that the new substitute will reduce the total volume needed by society of what is substituted, thus inherently demanding a reduction in the portion of labor devoted to the production of the substituted commodity from the total social labor, that is, reducing the labor needed by society in a second sense, thus reducing the level of value of that commodity. This situation often occurs: for example, the substitution of oil for coal, of synthetic cloth for cotton cloth, of transistors for electron tubes, of electronic watches for mechanical watches, and of detergents for soaps.

3. Changes in consumption structure. According to different consumption needs, means of consumption can be divided into three categories: means of subsistence, means of enjoyment, and means of development. The level of income determines the consumption structure. Generally speaking, when the level of income is low, the means of subsistence is the dominant aspect. As income increases, the percentage of the means of subsistence in the total volume of consumption will decrease, and those of the means of enjoyment and development will increase. Changes in inhabitants' consumption structure will lead to changes in the structure of social demand. This in turn will lead to increases or decreases in the social labor time (in the second sense) needed for these three kinds of consumer goods and other means of production related to the production of consumer goods, that is, changes in value and ratio of values. Increasing the people's income and meeting the needs of the people is the objective demand of the socialist basic economic law. Therefore, we must pay full attention to this aspect.

In short, price reform is the inherent demand of economic development and is also an important measure in following and implementing the socialist law of price change.

CSO: 4006/28

ECONOMIC DEVELOPMENT ZONES

SHANDONG COASTAL CITIES ATTRACT FOREIGN INVESTORS

OW180720 Beijing XINHUA in English 0634 GMT 18 Sep 85

[Text] Jinan, 18 Sep (XINHUA)--Two coastal cities in Shandong Province have stepped up construction of their economic and technological development zones, an official from Shandong provincial foreign trade and economic relations committee said.

Investors from Britain, France, Federal Germany, Japan, the United States and six other countries have shown a keen interest in the new economic and technological development zones in Qingdao and Yantai, small areas designated for accommodating joint ventures foreign enterprises and other cooperative projects.

Yantai has signed 20 contracts, agreements and letters of intent with foreign investors, and Qingdao has signed more than 40, the official said.

In Qingdao, many new buildings, including two standard factories, a warehouse, an office block, a hotel and residential quarters are under construction.

In Yantai, a new factory has gone into production, and a large department store, a luxury hotel and a school and a hospital will soon be built.

Both Qingdao and Yantai are among the 14 coastal cities China opened last year to foreign trade and investment. Construction of their economic and technological development zones started in March of this year.

CSO: 4020/6

ECONOMIC DEVELOPMENT ZONES

BRIEFS

SHANDONG: YANTAI ECONOMIC ZONE--Jinan, 24 Sep (XINHUA)--Investors from 11 countries and regions have been drawn to the economic and technical development zone in Yantai, Shandong Province, thanks to the recent rapid construction of infrastructure projects. Yantai is one of the 14 coastal port cities opened wider to foreign trade and investment last year. Earlier this year, it designated an area of 10 sq km to accommodate foreign enterprises, joint ventures and cooperative schemes to bring the latest advanced technology and equipment to the city. An area of one sq km is under intensive development at present. So far, roads and a nine-km water pipe have been laid. Projects nearing completion include a waterworks to supply 30,000 tons of running water a day, a number of workshops, living quarters and office buildings. [Text] [Beijing XINHUA in English 1523 GMT 24 Sep 85 OW]

CSO: 4020/6

ECONOMIC PLANNING

HUNAN ADVISORY COMMITTEE MEETS ON ECONOMIC DEVELOPMENT

HK290148 Changsha Hunan Provincial Service in Mandarin 1100 GMT 26 Sep 85

[Text] In order to accelerate Hunan's economic development, the provincial Advisory Committee's Standing Committee held meetings from late August to early September on building the power industry, exploiting mountainous areas, and reforming the urban economic structure. At the meetings, the Standing Committee members listened to reports and suggestions by the relevant departments and put forth many rational suggestions which were approved by the provincial CPC committee.

Wan Da, chairman of the provincial Advisory Committee; Luo Qinan, Wang Zhiguo, and Zhao Chuqi, vice chairmen of the provincial Advisory Committee; and some Standing Committee members of the provincial Advisory Committee respectively attended or presided over the meeting.

At the meetings, the participants said that the rapid development of the province's power industry in recent years has promoted the development of industrial and agricultural production. However, the province's power industry is at a relatively low level in the country. The per capita generated power of the province for last year was 248 kilowatt-hours, or 31 percent lower than the national average of 362 kWh. To change this situation and speed up power industry development, in addition to following the principle of developing the power industry by combining large, medium, and small units, the province is resolved to develop more medium and small projects. In the meantime, it is necessary to coordinate the development of the thermopower industry and the hydropower industry.

In regard to developing the economy in mountainous areas, the Standing Committee members of the provincial Advisory Committee and the responsible comrades of the departments concerned unanimously held that it is correct for the provincial CPC committee to treat developing the economy in mountainous areas as one of the focal points in the province's economic development. At present it is particularly necessary to use resources in mountainous areas to develop small-scale food, chemical, medical, light, and perfume industries, as this is of practical significance.

The responsible comrades of the provincial Advisory Committee also raised valuable suggestions on how to properly carry out reform of the urban economic structure.

ECONOMIC MANAGEMENT

GUANGDONG FINANCIAL, ECONOMIC INSPECTION GROUPS GO TO GRASSROOTS

HK251100 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 22 Sep 85

[Text] The provincial government has selected 112 cadres from provincial organs to form the provincial financial and economic inspection team. The team is divided into 12 groups and the groups will arrive in all localities before 25 September to help conduct a large-scale financial and economic inspection.

Before the cadres began studying in groups on 20 September, Provincial Vice Governor Yang Deyuan delivered a speech on the objectives, requirements, time, and work methods relating to the inspection to be conducted by the groups.

He stressed that it is necessary to understand key points and major issues and to have the courage to deal with tough problems. If the enterprises which leading organs handle violate financial and economic discipline, it is all the more necessary to help them correct their mistakes. We must not merely deal with little problems, while failing to deal with big ones. It is necessary to adopt both lenient and severe measures to deal with those who have made mistakes. Those who correct their mistakes on their own must be dealt with leniently and those who continue to conceal, and refuse to correct, their mistakes must be dealt with severely. It is also necessary to praise and encourage those who set a good example who have corrected their mistakes, and to severely punish those who set a bad example after determining their criminal responsibilities. As it takes some time to thoroughly investigate a case, those involved must first return money illegally gained, and they will be fined.

CSO: 4006/16



ECONOMIC MANAGEMENT

BRIEFS

FUJIAN TAXATION INSPECTION MEETINGS--The 10-member Fujian Section of the State Council Taxation and Finance Inspection group arrived in Fuzhou 19 September. The central inspection group heard work reports by the provincial finance department, the provincial taxation bureau, and other provincial departments over the past few days. It gave important instructions on conducting inspections of taxation and financial work. The comrades of the central inspection group will also conduct inspections in various localities. The leaders of the provincial CPC committee and the provincial government have attached great importance to general inspections on taxation and finance work in the province. Governor Hu Ping successively held several meetings to conduct study and make decisions. A leading group for conducting inspections was formed, with Vice Governor Wang Yishi as leader. Three offices were set up under the group. Currently, general inspections on taxation and finance work have been comprehensively established. The provincial government will soon organize inspection groups to assist in the various localities. [Text] [Fuzhou Fujian Provincial Service in Mandarin 1130 GMT 24 Sep 85 OW]

CSO: 4006/16

FINANCE AND BANKING

NATURE, FUNCTIONS OF CHINA'S FIVE BIG BANKS DISCUSSED

Beijing ZHUANYEHU JINGYINGBAO in Chinese 10 Aug 85 p 6

[Article by Xiong Ji [3574 0679]: "Different Characters and Functions of China's Five Major Banks"]

[Text] A bank is a financial institution handling currencies and credits. In the main deposits, it acts as an intermediary in credits by handling extension of loans, remittance, savings and settlement of accounts. A specially designated bank also handles the issuance of currencies.

Since 1983, banks in China have been gradually shaping into a socialist banking system composed of a central bank and specialized banks operating in a centralized and unified way and also independently. The banking system includes the People's Bank of China, the Industrial and Commercial Bank of China, the Bank of China, the Agricultural Bank of China and the Construction Bank of China. The characters and functions of these banks are briefly described as follows:

The People's Bank of China: It is a state agency under the leadership of the State Council designated for banking administration throughout the country. Its functions and responsibilities are (1) to study and formulate general and specific policies, laws and decrees and basic systems for banking work and implement them in an organized way; (2) to issue currency and regulate circulation of currency in the market; (3) to manage interest rates on deposits and loans and the rate of exchange in RMB in a unified way; (4) to formulate the state plan on credits and centralize management of credit funds; (5) to control the state foreign exchange, gold and silver and foreign exchange reserve and gold reserve of the state; (6) to act as the state treasury; (7) to approve the establishment or removal or merger of financial institutions; (8) to coordinate, check and verify the operations of various financial institutions; (9) to control the financial market; (10) to represent our government in pertinent international financial activities.

The main tasks of branch institutions in various localities are to regulate circulation of credit funds and currency in their respective designated areas, coordinate, direct, supervise and examine the operational activities of specialized banks and other financial institutions and undertake other matters designated by higher level banks under the leadership of the head

office of the people's bank and in keeping with the general and specific financial policies set forth by the state and the state credits plans.

The Industrial and Commercial Bank of China: The Industrial and Commercial Bank of China performs the following functions (1) to develop savings deposits in cities and towns and deposits by enterprises and lay the foundation for enlarging loan operations; (2) to manage the circulating funds of state enterprises as authorized by the state banks; (3) to handle loans of circulating funds to the state-operated, collective and individual industrial and commercial enterprises; (4) to manage technical transformation funds of industrial and commercial enterprises and responsible departments; (5) to handle loans for technical transformation; (6) to handle settlement of accounts of state-operated and collective enterprises; (7) to handle trust business, consigned deposits, loans, leasing and consultation; (8) to conduct investigation and study and relay information; (9) to take charge of cash control and supervise wage funds as authorized by the people's bank.

The Bank of China: It is a state-designated specialized bank dealing with foreign exchange business and a center to deal with the settlement of international accounts, a center to handle foreign exchange credits and a center to receive and pay out foreign currencies. The principal tasks and functions of the Bank of China are (1) settlement of international trade and nontrade accounts with foreign countries; (2) handling of deposits and loans between international banks; (3) overseas Chinese remittances and other inter-family remittances [jia ji hui dui 1367 7139 0565 0345]; (4) foreign currency deposits and loans and deposits and loans in RMB approved by the Bank of China in relation to foreign exchange business; (5) buying and selling of foreign exchange (including foreign currencies); (6) international gold buying and selling; (7) organization and participation in international banking group loan operations; (8) investing in or operating banks, financial companies and other enterprises in the form of joint ventures in foreign countries, Hong Kong and Macao; (9) issuing foreign currency bonds and other securities as authorized by the state; (10) trust and consultations; (11) other designated banking business operations approved by the state.

The Agricultural Bank of China: Its principal tasks are to exercise unified control of agricultural aid funds, centralize the handling of rural credits, guide rural credit cooperatives and develop rural finance.

The People's Construction Bank of China: A specialized bank dealing specifically in loans and allocation of funds for capital construction.

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CSO: 4006/918

FINANCE AND BANKING

ESTABLISHMENT OF MULTIPURPOSE BANK IN SHANGHAI URGED

Shanghai SHIJIE JINGJI DAOBAO [WORLD ECONOMIC HERALD] in Chinese 5 Aug  
85 p 5

[Article by Tu Xinjun [1458 2450 6511]: "State Council Has Approved Establishment of Multipurpose Bank in Shanghai; Why Has It Not Materialized Despite Repeated Urging?"]

[Text] In support of Shanghai's economic invigoration and transformation and putting it in the vanguard in its role in the four modernizations drive across the country, the State Council has provided Shanghai several special policies and flexible measures, one of them in the establishment of a multipurpose bank with headquarters in Shanghai to serve both the country and Shanghai. I am of the opinion that this most preferential treatment to Shanghai should be taken seriously.

Since its opening as a port, Shanghai's economic relations with the whole country, from goods exchange to financial circulation, have been developing from a rudimentary to a higher level. During the years of Shanghai's economic prosperity, banking was once revered as the head of all trades, the important role in banking to Shanghai's economy is thus clear. It is a pity that the economic mechanism built by following the Soviet modality has severed the arteries linking Shanghai with the rest of the country in financial relations, thus undermining Shanghai's economy and the economy across the country. The plan to rebuild a multipurpose bank in Shanghai at this time will undoubtedly provide the most powerful conditions in linking up the arteries between Shanghai and the rest of the country again so that Shanghai can collect funds from domestic and overseas markets and use them there and at the same time transfer Shanghai's technology, management expertise and information continually to all parts of the country by means of the financial mechanism.

What puzzles people is why a crucial matter of life and death bearing on Shanghai's economic development is taking so long to materialize?

In the meantime, news about preparations for the establishment of local banking institutions has kept pouring in from Tianjin and Fujian. Some people commented that Shanghai has always been a case of "fragrance outside a wall from flowers blooming inside it," of course, this is also a good thing. However, delaying in establishing a multipurpose bank in Shanghai

will be detrimental to implementing the strategy for economic development in Shanghai and also will have a certain effect on reform and development across the country. It is now time to pick an auspicious day to open this multipurpose bank in Shanghai for the sake of transforming and invigorating Shanghai.

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FINANCE AND BANKING

YUNNAN HOLDS PROVINCIAL FINANCIAL WORK CONFERENCE

HK250903 Kunming Yunnan Provincial Service in Mandarin 1100 GMT 22 Sep 85

[Text] In order to eliminate deficits in the state budget and to ensure the smooth progress of reform of the economic structure, the provincial financial work conference was held in Kunming recently. It called for the fulfillment of the province's financial revenue of 2.3 billion yuan for this year, an increase of 300 million yuan over the budget approved by the provincial people's congress in August. The conference also demanded that the province's expenditure should not exceed the limit set by the central leadership. The conference also studied measures for increasing income and cutting down expenses.

After analyzing the province's current economic situation and the province's income and expenditure from January to August, the conference held that it is possible for the province to attain the target income of 2.3 billion yuan and keep expenditure below the limit set by the central leadership, and to make contributions to maintain a balance between the state's income and expenditure.

The conference held that to fulfill the plan for increasing income and cutting down expenses for the province this year, all departments concerned must properly carry out the following tasks:

1. They must actively support the development of production and expand commodity circulation. The production of goods in short supply, fine quality or famous brand and other marketable products, must be supported in the areas of work, policy, and funding. They must also vigorously support enterprises by carrying out technological innovations to upgrade the quality of their products and cut down costs.
2. They must conduct a serious financial and taxation inspection to collect all income which should be submitted to the state.
3. It is necessary to keep pressure on and motivate enterprises suffering losses so as to create conditions for the enterprises to turn losses into profits.

4. It is necessary to perfect the second step of the reform by substituting taxes for the delivery of profit so as to genuinely invigorate enterprises.

5. It is necessary: to strictly control administration expenses; to prohibit the arbitrary issuing of bonuses, allowances, and material objects; to ensure the supply of funds needed to stabilize the market and the day to day life of the people, as well as to develop production next year; and to properly control and use these funds. In the meantime, strict control of the purchasing power of social organizations must be exercised.

CSO: 4006/16

FINANCE AND BANKING

BRIEFS

NEI MONGGOL SUPPLY DEPARTMENT'S PROFITS--In the first half of this year, the Nei Monggol Autonomous Regional Supply Department realized 34.963 million yuan of profits, overfulfilling the annual sales volume of materials reached over 190 million yuan, an increase of 33.8 percent over the corresponding period of last year; and the income from a diversified economy reached 4.96 million yuan, an increase of 3.17 million yuan over the same period of last year. [Summary] [Hohhot NEIMENGGU RIBAO in Chinese 23 Aug 85 p 1 SK]

MONEY-LOSING ENTERPRISES DROP--In the first 6 months of this year, 50 percent of the 35 large enterprises in Nei Monggol Autonomous Region whose losses surpassed 300,000 yuan had turned their losses into profits. The amount of losses was reduced by 9.882 million yuan or 70 percent. [Summary] [Hohhot NEIMENGGU RIBAO in Chinese 25 Aug 85 p 1 SK]

HAINAN TAX COLLECTION--By 9 August, the Han nationality areas in the region have fulfilled 89.2 percent of this year's tax collection plan, an increase of almost 200 percent over the same period last year and an all-time high. [Summary] [Haikou Hainan Island Service in Mandarin 0400 GMT 22 Sep 85 HK]

NEI MONGGOL REVENUE--During the Sixth 5-Year Plan period, the revenue of Nei Monggol Region has increased steadily. From January to August this year, regional revenue increased by 39.3 percent over the corresponding period last year. A responsible comrade of the regional finance department has pointed out that the rapid improvement in regional revenue does not mean that all financial problems have been solved. At present the region still depends on a state subsidy in this regard. [Summary] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 22 Sep 85 SK]

SHANDONG PEOPLE'S DEPOSITS--As of 7 September, the net increase of bank deposits made by the urban people throughout Shandong Province reached 1.02 billion yuan, a 76 percent increase over the figure of the corresponding 1984 period, topping the previous peak. [Text] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 12 Sep 85 SK]

CSO: 4006/16



INDUSTRY

HUNAN VIGOROUSLY DEVELOPS PETROCHEMICAL INDUSTRY

HK270915 Changsha Hunan Provincial Service in Mandarin 2300 GMT 25 Sep 85

[Text] During the Sixth 5-Year Plan period, the province's petrochemical industry departments have earnestly implemented the policy of the CPC Central Committee on reform of the economic structure, vigorously promoted the factory manager responsibility system, further carried out technological transformation, and changed the production structure. As a result, the province's petrochemical industry has developed at an average annual growth rate of 8 percent. The total output value of the province's petrochemical industry for last year was 2.982 billion yuan, accounting for one seventh of the province's total industrial output value.

From January to August this year, the output value of the province's petrochemical industrial departments increased by 9.7 percent over the same period last year. The output of the province's major chemical industrial products has occupied an important position in the country's chemical industry. The province ranks among the first five of the country in the output of sulphide ores, phosphorus ores, and sulphuric acid, and 114 products of the petrochemical industrial departments have been awarded titles as state, ministry, and provincial fine-quality products.

CSO: 4013/001

INDUSTRY

JINGJI RIBAO REPORTS AUTO INDUSTRY GROWTH

OW211150 Beijing XINHUA in English 0841 GMT 21 Sep 85

[Text] Beijing, 21 Sep (XINHAU)--China's motor vehicle industry has met two years ahead of schedule quotas set in the nation's Sixth 5-Year Plan sending in 1985, the ECONOMIC DAILY reports today.

"The industry will have built 1.32 million units worth 65 billion yuan by the end of this year," the paper says. Production value has risen at an annual rate of 30 percent over the past four years, and output, 22.5 percent.

China turned out 205,000 vehicles in the first half of this year, 48 percent more than in the same period of 1984.

Auto plants managed by the China Automotive Industry Corporation earned 3.1 billion yuan in profits between January 1981 and June 1985, increasing at an annual rate of 47 percent. They also paid the state 2.3 billion yuan in profits and taxes during that period, registering an annual rise of 26 percent.

New, energy-efficient truck models have begun to replace old ones such as the "Liberation", the "Yellow River" and the "Yuejin" (Great Leap Forward).

Many joint ventures have been launched with auto companies in France, the Federal Republic of Germany and the United States. "Foreign technology will help upgrade the auto industry and develop updated models," the paper says.

Management has also improved markedly, with 460 auto plants and refitting factories undertaking joint operations.

Plans for the country's auto industry growth over the next five years are being drafted, the paper says. They will focus on updating technology, and expanding specialized production and exports.

CSO: 4010/001

INDUSTRY

HAO JIANXIU CALLS FOR BETTER CHILDREN'S PRODUCTS

OW220054 Beijing XINHUA Domestic Service in Chinese 1320 GMT 20 Sep 85

[Text] Beijing, 20 Sep (XINHUA)--While viewing the exhibits in the "National Exhibition of New Products for Children's Use" today, Hao Jianxiu said that children's goods should be better, more varied, and colorful, and efforts should be made to mass-produce these new products as soon as possible.

Displayed this time are 600 pieces (sets) of new products for children's use developed in the 28 provinces, autonomous regions, and municipalities directly under the central government over the past 2 years.

New products for children's use developed rapidly in recent years. In Beijing alone, some 1,200 new products for children's use were marketed each year in the past 3 years. However, they were produced mostly in small quantities, far from satisfying the demand. The National Council on Children's Daily Use Articles sponsored this exhibition precisely for the purpose of popularizing these new products.

Present at the opening ceremony held at the Beijing Archeological Exhibition Hall today were also Zhu Rongji, vice chairman in charge of the State Economic Commission; Giu Chunfu, chairman of the National Council on Children's Daily Use Articles; and hundreds of Beijing residents.

CSO: 4006/28

22 October 1985

## INDUSTRY

## BRIEFS

ANHUI MILITARY INDUSTRY ENTERPRISES--Gratifying achievements have been made this year in our province in diverting military industry to civilian purposes. The first half-year's output value of civilian products produced by military industry enterprises reached 86 million yuan, a better than 60 percent increase compared to the same period of 1984. Currently, two-thirds of the military industry enterprises under the departments of science, technology, and industry for national defense in our province have turned to civilian production. They have so far developed several hundred products of over 10 categories for civilian use. In doing so, they have had an opportunity to bring the military industry's technological superiority into play and, at the same time, helped meet the needs of national economic construction and livelihood of the people. [Text] [Hefei Anhui Provincial Service in Mandarin 1100 GMT 31 Aug 85 OW]

JIANGXI FOREIGN INVESTMENT--Jiangxi Province has achieved gratifying results in using foreign funds. Foreign funds invested in this province in the first half of this year increased by 44.8 percent compared with the total amount invested in 1984. By mid-August, 16 Chinese-foreign joint ventures had been approved. Most opening business in Jiangxi have been successful. Since it went into operation 9 months ago, the (Honghai) Electronic Company Limited, our province's first joint venture, has made a profit of more than 1.28 million yuan. [Summary] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 28 Aug 85 OW]

JIANGXI ENTERPRISE CONSOLIDATION--Enterprise consolidation in Jiangxi has entered the final phase. By August, 91 percent of the independent state industrial enterprises had been consolidated. Among these, the large and medium-sized state-run enterprises had completed consolidation. [Summary] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 28 Aug 85 OW]

JIANGXI JOINT VENTURES--Enterprises of the land reclamation departments in Jiangxi have actively engaged in joint ventures with enterprises in other provinces and foreign countries. Currently, 12 plants are being run as joint ventures with other provinces, with funds totaling 3.27 million yuan extended by partners in other provinces. Four plants have been run as joint ventures with foreign countries, attracting foreign capital totaling U.S. \$1.26 million. Five advanced equipment projects have also been imported from abroad, all of which helped increase economic results and invigorated the enterprises. [Text] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 24 Aug 85 OW]

CSO: 4013/001

DOMESTIC TRADE

BRIEFS

JOINT OPERATIONS WELCOMED--At today's inauguration ceremony of the (Wangbao) Electrical Appliances Joint Operation Company in Beijing, Beijing Deputy Mayor Sun Fuling said that Beijing welcomes Guangzhou Enterprises carrying out joint operations with Beijing to develop the capital's tertiary industry. The deputy mayor said at the inauguration ceremony that Beijing has recently issued a document calling for joint operations between departments and between high and low levels to develop tertiary industry. Beijing's purchasing power has increased by 30 percent in recent years, with a strong demand for various commodities. The joint business operation carried out by the (Wangbao) Electrical Appliance Company in Beijing supports the capital's market. Some Guangzhou enterprises, including the Guangzhou (Yuzhou) Metal Products Company, which produces (Sanjiao) brand electronic gas cookers, are now making preparations in Beijing for setting up joint operation companies. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 15 Sep 85 HK]

CSO: 4006/13

FOREIGN TRADE AND INVESTMENT

RENMIN RIBAO CITED ON USING FOREIGN EXCHANGE

HK051426 Beijing ZHONGGUO XINWEN SHE in Chinese 0402 GMT 5 Sep 85

[Text] Beijing, 5 September (ZHONGGUO XINWEN SHE)--China's State Administration of Exchange Control recently pointed out: In both the production and circulation fields, foreign exchange must be really used where it is needed most badly on the principle of overall consideration and all-round arrangement so as to ensure that the limited exchange reserves may bring about the best economic results.

The State Administration of Exchange Control stressed this point when drawing a lesson from the automobile speculation incident in Hainan Island. In an article published by RENMIN RIBAO today, the State Administration of Exchange Control said: We must adhere to the correct general orientation in the use of foreign exchange. Control must be tightened over the import of goods that are circulated in domestic markets and the import of sets of parts to be assembled into finished products. Control should also be tightened over the import of materials that are used in extrabudgetary construction projects or used to expand the scale of investment to an excessive degree that may lead to a derailment of our economic development. We should use foreign exchange for projects which may increase exports and may increase foreign exchange earnings. Foreign exchange should be used to import technologies and key equipment that are badly needed in our modernization construction.

The article said: At present, effective measures should be adopted to encourage the increase in exports. Exports are the main source of our foreign exchange reserves. The foreign exchange funds needed in our modernization construction mainly come from the foreign exchange earnings in our foreign trade. We should adopt various methods to boost exports and to supervise the fulfillment of the export tasks of the relevant enterprises. Now some units still retain some of their foreign exchange income abroad in order to seek their selfish interests at the expense of the state. This lawbreaking action must be resolutely checked. Effective measures must be adopted to have all foreign exchange [word indistinct] come turned over to the state treasury in accordance with the relevant stipulations.

The article said: The special economic zones and the open cities are required to play a main role in earning more foreign exchange for the state. The practice of opening up to the outside world does not mean that more

foreign exchange can be spent; instead, it means that more goods should be exported and more foreign exchange should be earned by bringing the advantages of the open areas into play and by changing an inwardly oriented economy into an outwardly oriented economy. We should integrate the use of foreign exchange with the earning of foreign exchange so as to promote the development of the entire national economy. Contracting foreign loans, issuing bonds in international markets, and offering guarantees in foreign monetary transactions are all important aspects in strengthening the overall management of foreign exchange. China is a socialist country. Any locality or unit's action of contracting foreign loans, issuing bonds, or offering guarantees for the payment of foreign exchange will affect the state's overall debt and credit status. Therefore, all these things should be included in state plans. At present, the state has authorized the people's bank of China to act as a general managing unit for all foreign loans and bond issuances. At the same time, legal means should be adopted to strengthen the overall management of foreign exchange. Lawless activities in the field of foreign exchange must be investigated and checked, and no leniency should be shown to any units which violate foreign exchange control regulations.

CSO: 4006/13

FOREIGN TRADE AND INVESTMENT

HUNAN ISSUES CIRCULAR ON EXPORT QUOTAS, FOREIGN EXCHANGE EARNINGS

HK180827 Changsha Hunan Provincial Service in Mandarin 2300 GMT 15 Sep 85

[Text] On 14 September, the provincial people's government issued an urgent circular, demanding that governments at all levels and departments concerned throughout the province make concerted efforts, firmly grasp the work of procuring and exporting products, and ensure the fulfillment of the quotas for exports and foreign exchange earnings for this year.

The circular demands: All places, departments, and production (word indistinct) strengthen their concept of the overall situation, must strictly carry out the state plans for mandatory exported commodities, such as industrial products--tungsten ore, silk articles, and linen articles, and must not sell to those from other places who come to our province to rush to buy at raised prices. If industrial and mining enterprises do not fulfill the state quotas and if they sell their products to other places at high prices, the finance departments must receive their profits derived from the high prices.

The circular points out: It is necessary to strengthen control over the prices of exported commodities. Regarding the exported products the raw materials for which are supplied in accordance with state planned distribution, the production enterprises must supply them at the prices stipulated by the state in a unified way. Regarding the exported commodities the control of those prices has been relaxed, it is essential to adhere to the principle of the same price for the same quality and high price for superior quality. Exported agricultural and sideline products must be priced in accordance with the market situation and must be vigorously procured.

In conclusion, the circular demands: Foreign trade departments must strive to improve management and must do business well in many forms.

CSO: 4006/13



FOREIGN TRADE AND INVESTMENT

FOREIGN EXCHANGE EARNINGS FROM TOURISM INCREASE

HK180526 Beijing CHINA DAILY in English 18 Sep 85 p 3

[By staff reporter Nie Lisheng]

[Text] A record 8.97 million overseas tourists, including 8.3 million from Hong Kong and Macao, visited China in the first half of 1985, a striking 59 percent increase over the same period last year.

As a result, foreign exchange income from tourism rose by 20.1 percent to \$560 million, according to the State Tourism Administration.

"The sharp increase is quite a pleasant surprise for us, because it has nearly doubled the usual growth rate," Chen Shuqing, the administration's spokesman told CHINA DAILY.

The number of overseas tourists in China has been growing at an annual rate of about 30 percent over the past few years, he said.

Of the nearly nine million tourists from abroad so far this year, about 635,000 were foreigners, a 33.9 percent increase. They included about 200,000 from Japan, the largest number from a single country. The United States ranked second with more than 110,000 visitors to China.

More than 8.3 million visitors came to China from Hong Kong and Macao during the first half of 1985, a 16.1 percent increase over the previous period last year.

In a significant change from previous years, Chen said, the overseas tourists now travel more widely around the country. Instead of concentrating in such cities as Beijing, Xi'an, Habgzhou, Nanjing, Shanghai, Guangzhou and Guilil, they often prefer to tour Chengdu, Kunming, Lanzhou, Urumzi, Shenyang, Dalian and Changchun.

Chen attributed the fast growth of tourism in China mainly to the country's open policy, which "has attracted more and more foreign and overseas people to visit China for business or travel."

In the first half of 1985, the number of tourist parties admitted by China's tourist agencies was roughly the same as before, but numbers of individuals or groups travelling on their own increased considerably.

The satisfactory solution of Hong Kong's future relations with the mainland is also believed to be a factor contributing to the growth of international tourism in China.

By the end of August, China opened a total of 265 cities or regions to overseas tourists; 106 of them allow direct or immediate tours without first-hand registration with local police authorities. For travel in the other 158 areas, a travel permit from the police is required.

Since January 1985, tourist bureau, agencies or companies at provincial and municipal levels have been authorized to make travel arrangements directly with foreign countries. And as of August, overseas Chinese and compatriots from Taiwan, Hong Kong and Macao are exempted from the visa regulations when making short-trips in China for business or to visit relatives or friends.

To alleviate air traffic congestion, CAAC started three new routes in the first half of 1984: from Manila via Xiamen to Beijing; from Beijing via Karachi to Kuwait; and from Beijing to Singapore. The number of flights between the mainland and Hong Kong has increased by 31 percent.

All in all, CAAC runs international flights into China 886 times a week, 215 more flights than the first half of last year, while the volume of air passenger traffic increased by 27 percent.

CSO: 4020/8

FOREIGN TRADE AND INVESTMENT

SHANGHAI FOREIGN TRADE, DYNAMIC COMPARATIVE ADVANTAGE

Shanghai SHIJIE JINGJI WENHUI [WORLD ECONOMY FORUM] in Chinese No 3, 5 Jun 85  
pp 10-15, 41

[Article by Wang Yaotian [3076 1031 3944]: "Theoretical Exploration of Shanghai's Foreign Trade Strategy"]

[Text] I. The Theory of Dynamic Comparative Advantage Is the Modern Practice of the Marxist Theory of International Value

The Marxist theory of international value holds that the labor intensity of each worker differs, that the average medium-level labor intensity within a country constitutes that country's national value and that the labor intensity of the world constitutes international value. The disparity that exists between the national values of different countries and international value creates profits in international exchange. Certain countries gain little, while others secure large profits in international exchange. However, Marx believed that even countries with a comparatively low labor intensity (nowadays these are the countries with low labor productivity) can still make profits in international exchange, as long as they exchange their products against products with a production expenditure that is less than what they themselves had to expend. This is the basic concept of the Marxist theory of international value.

What constitutes national value is the comprehensive balance of the various essential factors of production, the advantages and disadvantages of production organization and of import-export commodity composition. International value, then, is the composite balance on a worldwide scale of the advantages and disadvantages of the economies of all countries. Thus, theorists in some East European countries have in recent years advanced the theory of comparative value in international trade, based on Marx's theory of international value.

A special account of the "theory of comparative advantage" is to be found in "Political Economics," a book by two Yugoslavs, (Mi La-ding Ke-la-qi) [phonetic] and (Di-huo-mi-er Ke-la-shen-ka-li-qi) [phonetic], particularly in Chapter 6, "Exchange Under the System of a Commodity Economy" and Chapter 5, "International Commodity Exchange." (Ke-la-qi) points out: "In economics, the comparison of the amount of labor (transferred and supplemented labor) that

had to be expended on manufacturing the same commodity under different conditions (domestically and abroad) is called determining the comparative cost. Determination of the comparative cost indicates which country is in a better position to manufacture what commodity and reveals the specific differences between two countries that have instituted production specialization and mutual exchange of commodities." He also points out: "As far as any single country is concerned, it will not be manufacturing all the various kinds of commodities that it needs, but will merely manufacture such commodities which require comparatively little labor in comparison to other countries; this makes good economic sense. However, it is at the same time an equally rational economic process to export surplus commodities that exceed domestic requirements, or in exchange for these commodities import commodities that had been manufactured in a foreign country under comparatively better conditions, and to import commodities for which less labor was required in production abroad."

In his book "International Value and National Value," the Hungarian economist (Chai-er-ke) [phonetic] merges the Marxist theory of international value with Ricardo's "Theory of Comparative Cost," and proposes a kind of "united entity," similar to the international production value, and therefrom deduces his own theoretical system of international value and national value.

In "Political Economics," by the Romanian economist Constantinescu and others, it is held that "the economic benefit from foreign trade is reflected in the comparative relation between results achieved in the interchange in the foreign market, and the effort expended for that purpose."

The above shows that East European scholars generally acknowledge the theory of comparative advantage in foreign trade.

According to the Marxist theory of dialectical materialism, the theory of comparative advantage must be rendered dynamic, and relevant studies have already been made abroad. For instance, the doctrine on the dynamic adjustment of production structure and import-export commodity structure by Shinohara Miyohai of Japan has indeed the meaning of a theory of dynamic comparative advantage. The theory of dynamic comparative advantage holds that in the process of economic development in a country, area or city, its strengths and weaknesses are in a dynamic state and undergo changes. They change because of changes in innate factors of production, in the conditions of supply and demand, because of interference by government policies, by various economic measures or by the use of foreign investments of capital or know-how which can produce certain key elements and natural resources. The changes can turn disadvantages into advantages and also turn mere potential into real strength. The improvement of key production elements can lead to readjustments in the production structure, which can result in a better quality or increased quantity and variety of the product, which, again, can lead to changes in the composition of the import-export commodities and in their position in the international division of labor, finally promoting economic growth in the area in question. In conclusion, the theory of dynamic comparative advantage means: (1) a dynamic interpretation of the Marxist theory of international value; (2) a logical affirmation of the rational core in the comparative cost theory of the classical school, and rejection of

static constraints, and the belief that all key production elements are in a process of dynamic development, and that a country's or an area's advantages and disadvantages are in a constant process of change; (3) the interference by government action or various economic means can convert weaknesses to strength and mere potential into a tangible advantage.

Key factors of production are major elements which affect the industrial structure and international trade. The production elements in a country are constantly changing. For instance, natural resources always constitute an important element of the productive forces, but as time goes by all types of natural resources (mineral, plant or animal resources) are continuously changing in their significance in economic development. Prior to the industrial revolution, coal was not yet an important element in the development of productive forces, and prior to the invention of the internal combustion engine, petroleum was unimportant. Before the advent of the automobile, rubber was not very important, and before discovery of the atom and its industrial utilization, uranium was a useless waste material. All have now become important production elements.

The soil also constantly changes as an element of production. Before artificial irrigation, large arid regions of the western United States had been wasteland that could not be cultivated, but have now become an important area for the production of grain and cash crops. The value of the same piece of land will greatly change before and after being opened up by communication facilities. In remote mountainous regions inaccessible by car or train, many products that are of little value immediately become valuable as soon as communications by car or train have been established.

Manpower is even more of a key production element that frequently changes; its quality can change through technical training or intellectual investment.

The contemporary flow of international capital is still comparatively free. If a country or area is adept at utilizing foreign capital, it can quickly resolve its shortage of capital. Postwar Japan and West Germany were seriously short of capital, but by utilizing foreign capital they were able to develop their industries and have now become countries that export capital.

Technology is now an important production element. In the current tide of the new industrial revolution, it is possible through importing advanced technologies, developing newly-evolving industries and restructuring traditional industries to quickly emerge from a technologically backward state and join the ranks of the technologically advanced.

In the modern world, information has also become an important element of production, one that is constantly undergoing change.

The changes in the important elements of production do not develop completely by themselves; they require the use of government policy or economic measures to induce changes that promote economic development. A significant measure in this respect is the development of foreign economic relations and trade as an important means of promoting dynamic changes in the key production elements. If a country or city lacks natural resources, capital and technologies, it can

utilize international natural resources, capital, and technology to develop certain industries, and the rational deployment of the key production elements can lead to transformations in the industrial structure. Transformation of the industrial structure, in turn, induces change in the import-export commodity structure and will change that country's or city's unfavorable position in the international division of labor. For instance, if a country or city with a backward industrial structure is originally only in the position of supplying primary products or cheap manpower in the vertical international division of labor, a restructuring of its industry can enable it to export machinery and electrical items and other high-grade technological products. It will then become able to participate in the same high-level international distribution as the developed countries, and will in this way be able to gain greater benefits in the international division of labor.

## II. Analyzing the Advantages and Disadvantages of Shanghai in Foreign Economic Relations and Trade

According to the theory of dynamic comparative advantage, Shanghai as an opened-up city and important national economic center should fully utilize all international conditions and through the utilization of international natural resources and international capital and technologies restructure its traditional industrial structure. Shanghai must utilize external conditions to supplement its shortages of key production elements, and must arrange its industrial structure in a way that will meet the requirements of the world market. It must at the same time support the economic development of the entire nation with an advanced industry and advanced technologies. In this way, through opening up and restructuring, Shanghai's economy will acquire favorable commodity circulation; Shanghai simply must follow this route for the sake of promoting its welfare and of its reform.

In recent years, Shanghai has achieved great successes in foreign economic relations and trade. From 1979 to 1983 commodity exports increased 4.8 percent per year and reached \$3.6 billion in 1983, which accounted for 16 percent of China's total exports. As to utilization of foreign capital, the agreements for direct investments in a variety of patterns involved a total amount of more than \$1 billion, which was a considerable increase over the last few years. Several tens of Chinese-foreign joint venture enterprises have already been established in Shanghai. In a vertical comparison, we have accomplished much, but if we use a horizontal comparison, that is, if we compare Shanghai with certain Asian countries and territories or with certain regions of China, we may discover that Shanghai is in certain respects backward, and this even by a large margin.

Currently, the situation of Shanghai's foreign economic relations and trade may be said to be under a pincer attack from north and south, as well as under attack from inside and outside of China. The attack from north and south means that Shanghai is being challenged by inland areas which show rapid economic and trade development, such as Liaoning, Jiangsu, Zhejiang and Shenzhen, causing a yearly decline in Shanghai's share in the nation's foreign trade. In the early years after establishment of the PRC, Shanghai exported more than half of China's total exports; this declined to 25 percent in the 1970's and is now down to 16 percent.

The "attack from inside and outside" means that Shanghai is being challenged by countries and territories in Asia which have experienced or are experiencing a vigorous development of their economies, such as Japan, South Korea, Singapore, Hong Kong and others. For example, the value of Hong Kong's foreign trade in 1938 was only 62 percent of that of Shanghai. In 1949 Hong Kong's exports amounted to only HK\$2.7 billion. However, by 1983 Hong Kong's exports had risen to US\$20 billion, while Shanghai's total exports at that time were only US\$3.6 billion. In 1959, Hong Kong's share in world trade was only 0.7 percent; by 1982 it had risen to 1.27 percent, and it had advanced from 26th to 16th place in total world trade. Shanghai, on the other hand, transacted about 1 percent of world trade in 1938, but this has by now been weakened to a mere 0.3 percent. A look at the growth rates reveals that the average annual growth rate of Hong Kong reached 14 percent; it was 19 percent in the 1970's and 18.66 percent in the first 3 years of the 1980's, while the growth rate of Shanghai's exports in the years from 1981 and 1983 was only 4 percent.

What is Shanghai to do against such serious challenges from within and without? The only way out is to accurately assess Shanghai's situation and in the light of Shanghai's advantages and disadvantages arrive at a strategic theory for its future foreign economic relations and trade, explore the advantages and disadvantages of the possible development of its foreign economic relations and trade, make the most of its strong points and avoid shortcomings, grasping opportunities and meeting challenges.

The following are Shanghai's advantages for the development of foreign economic relations and trade: first is its extremely favorable geographical location. Facing the Pacific and, toward the interior, blessed with a vast, richly endowed hinterland, Shanghai is an important port of China and the country's largest economic center. Second, Shanghai has a relatively solid industrial foundation, fairly complete in all its sectors, and possesses all facilities for the development of complete machinery and electrical plant manufacture and for complicated processing to initiate work in new industrial fields. Third, Shanghai has a fairly complete array of scientific research agencies and institutes of higher learning, and a great concentration of technological strength, presenting excellent conditions for the development of new products. Fourth, Shanghai has the foreign economic relations and trade organs and specialized, well qualified personnel knowledgeable in foreign trade, foreign economics, banking, insurance, transportation, warehousing, customs affairs and commodity inspection.

These are certain advantages Shanghai has over other Chinese coastal cities. However, there are also certain disadvantages which are now becoming increasingly evident.

First, Shanghai's industrial equipment has not been renewed for a long time, a fact which seriously affects the quality of its products. Second, it lacks natural resources and is also short of energy sources. Third, its harbor is overcrowded, and the burden on its transport facilities has sharply increased. Fourth, Shanghai lacks room for factory sites, and expansion is difficult. Fifth, there is a serious lack of personnel at all levels of foreign economic relations and trade activities. Sixth, Shanghai's rigid economic and foreign

trade system, built up over a long period of time, is only just now in the process of being restructured. Certain antiquated systems still require reform.

Recently the central authorities advanced the proposal to transform and stimulate Shanghai; they have proposed as an overall goal of Shanghai's developmental strategy that through transformation and stimulation, a vigorous effort be made to establish Shanghai as a key modern socialist city, fully opened up and possessing many capabilities, with a rational industrial structure, economically and culturally thriving and with highly developed science and technology. The primary demand in all this is that Shanghai be opened up toward the outside world as well as toward the interior and that its enterprises be invigorated, the major part of Shanghai's opening up toward the outside world to be the development of its foreign economic relations and trade. Determining the strategy for the development of foreign economic relations and trade must definitely proceed in accord with the developmental laws of international economic relations and trade, which makes it necessary, therefore, to explore the theoretical basis for this strategy.

### III. Proposing Certain Strategic Points for the Development of Shanghai's Foreign Economic Relations and Trade, Based on the Theory of Dynamic Comparative Advantage

At present, the theory of dynamic comparative advantage has become a new trend within the framework of the theories on international economic relations and trade, and has, moreover, achieved outstanding successes in the practice of certain countries, thus making it well worth our while to submit it to a study. In the following an attempt is made to apply the theory of dynamic comparative advantage to the formulation of a strategy for the development of Shanghai's foreign economic relations and trade.

#### A. Performing Continuous Dynamic Readjustments in Shanghai's Industrial Structure

The core of the theory of dynamic comparative advantage is the belief that in the light of its present advantages and disadvantages and potential advantages and disadvantages, combined with a consideration of the projected needs of the international market, every country, territory or city must make dynamic adjustments in its industrial structure and the composition of its import-export commodities through the application of certain policies and economic measures. In the case of a city like Shanghai, for which foreign trade is a dominating factor, the industrial structure must accord with the need to expand exports. According to this theory, we would have to do the following:

First, we have to reform and readjust antiquated traditional industries. There are certain traditional industrial products manufactured in Shanghai that appear at present still of superior quality with regard to foreign trade, such as the products of the textile and clothing industries. However, we must realize that there is an oversupply of these products in the international market, and competition is extremely fierce. On the other hand, we also cannot possibly immediately drop production of these articles, but must carry out certain readjustments and transformations. We must use the most modern



technology and techniques of the world to renew our equipment and technology, and manufacture products that are low in production costs and high in value. By establishing internal relations within China, the primary processes of the textile and clothing industries can be shifted to the areas where the raw and semiprocessed materials are produced. This would help the industrial development of the interior, as it would also allow Shanghai's industry to make great strides in its progress based on the renewal of its equipment.

Second, we have to develop newly evolving knowledge- and technology-intensive industries, e.g. high-efficiency microcomputers, artificial intelligence machines, computer software, bioengineering, etc. There is now absolutely nothing of it in Shanghai, and some such industries are just now about to be started, but Shanghai must definitely develop these industries. Speaking from the viewpoint of the whole country, as China will catch up and surpass the advanced world levels in these newly evolving industries, Shanghai must play the role of vanguard. Placing major emphasis on the development of these industries, the products of which are small in size but high in value, will also be most beneficial for the "outward push" of Shanghai. There will, furthermore, be a constant seller's market for these products for a considerable length of time. It thus is extremely important for Shanghai's own economic development as well as for the industrial development in the interior that Shanghai develop these newly emerging industries. For this purpose, Shanghai must strengthen the applied research into new technologies at all universities and scientific research agencies, strengthen the training of specialized technical personnel, universally raise the quality of elementary and middle-school education, and strengthen the supplemental general education and technical training of young workers, so as to create favorable conditions for the priority development of knowledge-intensive industries in the Shanghai area.

Third, adjusting the industrial structure must be accompanied by energetic development of the tertiary industries. Currently, the Shanghai area lacks to a considerable degree all kinds of production and livelihood services. Following the establishment and development of the new knowledge-intensive industries in the Shanghai area, Shanghai must become an important scientific research center, technological center, industrial and commercial center and cultural center of the whole country. This will pose even greater demands on all kinds of services, especially production services.

#### B. Dynamic Adjustment of the Composition of Shanghai's Import-Export Commodities

Adjustment of the makeup of Shanghai's import-export commodities is an important organic part of our efforts at defining a strategy for the development of our foreign economic relations and foreign trade. It is necessary for us--and we have the ability--to apply the principle of dynamic comparative advantage in our strategic planning, based on the present advantages and disadvantages in Shanghai's foreign trade situation. For instance, the labor-intensive products of Shanghai's textile, clothing, hardware and tool manufacturing industries and all kinds of products of the handicraft industries have a certain competitive strength in the international market because of low wages and costs. In other words, these are Shanghai

products that prove superior in the international market. Will it then be possible for Shanghai to shift the future focus in its foreign trade strategy to the development of technology-intensive industries? We believe that a comparatively backward country or territory that determines in its strategy for the development of foreign economic relations and trade to focus primarily on labor-intensive industries will cause this country or territory to permanently remain in a backward state. We must, furthermore, realize that changes will always occur in every country or territory as regards its strengths or weaknesses in foreign trade, and, moreover, that these changes are occurring all the time. On the other hand, intervention by government policies can promote or accelerate these changes. When planning the developmental strategy for Shanghai's foreign economic relations and trade, we must determine the direction of import-export commodity adjustments, focus on future developments, and study in a dynamic manner; we must shift the focus of import-export commodities, gradually and in a planned way, from labor-intensive products to technology-intensive products.

#### C. Developing Macroeconomic Benefits in Foreign Economic Relations and Trade

The "comparative cost theory" only looks at the direct "comparative benefits" of the microeconomy, but the practice of many countries now proves that the benefits for a country from international trade are not limited to static "comparative benefits," but that there are certain computable and uncomputable macroeconomic benefits and multiplying benefits. In certain countries, foreign trade plays the principal role in economic growth. For instance, during certain periods of time, international trade constituted the motor for economic growth in the United States, West Germany, Canada and Australia. In the case of Asia, the rapid economic growth in such areas as postwar Japan, South Korea, Hong Kong, Taiwan and Singapore was precisely due to the importance which these areas attached to the development of their foreign trade. Shanghai originally had its own favorable conditions, but since it neglected for a certain period of time to pay attention to the development of the functions of foreign trade, foreign economic cooperation, importation of technologies and introduction of foreign capital, the pace of economic growth was slowed considerably in comparison with the other mentioned areas. This is precisely one of the reasons why we want Shanghai to open up one step further and energetically develop its foreign trade.

#### D. Allowing Policy To Play Its Proper Role

One of the important points of the theory of dynamic comparative advantage is its eclectic use of elements of free trade theories and the appropriate manner in which it brings the state's intervention in foreign trade into play, thereby scientifically solving the contradiction of developing countries between, on the one hand, seeking to gain comparative benefits, and, on the other hand, advocating trade protection. The state's intervention in foreign economic relations and trade can function in the following ways: (1) Many-sided support by the state's legislative and policy measures for industries with good prospects. (2) Dynamic regulation of production enterprises and import-export enterprises by the state by means of such economic levers as taxation, pricing, interest rates, remittance rates, etc. (3) Protecting industries with good prospects for a certain specified time through

customs duties or other import-restrictive measures to allow them to quickly develop and gain capability to produce export commodities with competitive strength. However, backwardness must not be protected; protection must be dynamic, and we must still import certain appropriate foreign advanced products in order to exercise pressure on domestic production to improve quality. (4) Constant adjustment of the foreign exchange rate; we must adjust the exchange rate in such a way that it will help achieve our goal of expanding exports, importing technologies and absorbing capital.

#### E. Bringing the Law of Value Fully Into Play

It is the international law of value that functions in the world market. In this market it seems, from observations over long periods of time, that commodities are restrained by production costs; however, the prices of commodities are mainly determined by supply and demand, and the law of competition causes prices to rise or fall. Most of Shanghai's foreign trade was in the past conducted according to plan. If the imports and exports of all commodities are transacted according to strict directive-style planning, sales abroad or imports from abroad must be executed on schedule, regardless of rising or falling prices. This often caused great losses to our import-export enterprises and yielded only limited economic results. We must, therefore, introduce more market regulation and guidance-style planning into our foreign trade and reduce directive-style planning. It means that, with the exception to be made for a small group of important import-export commodities, the enterprises themselves must be allowed to determine for the majority of common commodities what is to be exported, when to export, and to sell to what party. As far as government policy permits, the enterprises shall have fullest rights of self-determination. This will enable the enterprises to determine their business program according to the international law of value, as well as according to the supply and demand situation and price fluctuations in the international market, and to use the size of the profit margin as the primary index to evaluate the economic benefits gained by the foreign trade enterprise in question.

#### F. Expanding Clientele of Foreign Trading Countries Through Comparisons Among Many Countries

The "comparative cost theory" merely considers the comparison of labor costs between two countries. In the actual practice of international trade, however, the superiority of one country is not compared with only one other country, but compared with a large number of countries that manufacture and export the same type of product; the comparison is with the entire world market, which is also what Marx called the comparison of the "national value" with the "international value," a comparison that is of greatest significance for the determination of strategy for foreign economic relations and trade. For instance, we cannot find a market in the developed countries for certain of our machinery or electrical products, but since these products are of a certain quality, in addition also comparatively cheap, they can still be sold in Southeast Asia, the Middle East and Africa. Certain of our meat products do not conform to standards that would allow their sale in capitalist markets (such as very fat frozen pork), but they can be sold in the Soviet and East European markets.

## G. The Theory of the Dynamic Comparative Advantage Can Also Be Applied to Shanghai's Strategy of Economic Cooperation

As a city that is to import capital, technology, and advanced management, Shanghai must evoke willingness among foreign investors to invest in China. To have the foreign investors set up joint venture enterprises, cooperative management enterprises and institute compensatory trade, Shanghai must provide an excellent investment environment, infrastructure and comparatively favorable conditions; this alone will induce foreign enterprises to come to Shanghai. We must therefore realistically recognize what advantages Shanghai can offer to imported capital or technologies, and what disadvantages there are, also what the advantages and disadvantages are in investing enterprises from all over the world, and on the basis of this information we must determine the tactics for our trade talks.

Shanghai has indeed certain favorable conditions that attract foreign capital, such as a comparatively well equipped industrial foundation, good conditions for possible cooperation, a comparatively low level of wages, and a fairly high degree of labor productivity; but Shanghai also has certain unfavorable traits discouraging foreign investments, such as a very faulty infrastructure, backward communication equipment, shortage of space, harbor congestion and inadequate economic legislation concerning foreign interests. When drawing up Shanghai's strategy for attracting foreign capital, we must objectively appraise these advantages and disadvantages and exert efforts to create conditions that will enable the achievement of dynamic changes in the investment environment and in policy measures. We must improve the investment environment, create favorable conditions, broaden our policies, give the investors the feeling that profits are possible and create more attraction than investments in other countries can offer. It is worthwhile to study whether China's income tax on Chinese-foreign joint venture enterprises or the land use fees in Shanghai are attractions or not.

Only if Shanghai can show a positive attraction for foreign investors, so that investors from various countries will compete with one another for investments, will Shanghai acquire the opportunity to make selections from among the investors and regarding investment projects. For instance, there was the need to cause a tide of foreign investors to invest in the recently established Minxing New Industrial District and in the Hongqiao District when selection could be made from a large number of investors to select the best and allow his investment. The Minxing New Industrial District was built up into a high-grade advanced technology electronics city (that there is now only one Hong Kong toy manufacturer placing an investment to establish this kind of labor-intensive product in the Minxing New Industrial District is undesirable), but the problem is that our conditions cannot yet induce large numbers of foreign investors to compete with one another or to induce a wave of investments.

## V. Some Specific Suggestions

A. In Shanghai's Seventh 5-Year Plan Priority Must Be Given to the Development of High-Grade Technology-Intensive Industries

The Seventh 5-Year Plan for the whole country has by now been determined. With regard to the entire country, the emphasis is on the transformation of traditional industries, but we must not engage in arbitrary uniformity for the whole country. Shanghai offers comparatively favorable conditions for the development of high-grade technological industries. If Shanghai will not develop in this direction, China will industrially still be lagging behind the United States, Japan and Western Europe at the completion of the Seventh 5-Year Plan and even during the Eighth 5-Year Plan. Shanghai's industrial structure today is comparable to that of Japan in the 1960's. If Japan would at that time not have advanced high-grade technology products and merely would have reformed its textile industry, today it could not market throughout the world all kinds of electric household appliances, motorcars and other products. This Japanese successful experience is well worth our emulation. Of course, we also do have to restructure certain traditional Shanghai industries that have had a certain superiority in the past, but this should not be made the industry for preferential development. The use of the foreign exchange retained by Shanghai and the foreign exchange allotted by the central authorities should be concentrated on the importation of technology to develop Shanghai's high-grade technology industries; in the deployment of qualified personnel the same principles should be followed.

#### B. Shanghai Should Aim at North America and Europe Primary Targets for Expanding Exports

North America encompasses the large markets of the United States and Canada, but these markets make high demands on the quality of our exports. From the overall national point of view, Shanghai is comparatively well equipped to break into these markets. That does not mean, of course, that Shanghai should altogether abandon such markets as Hong Kong, Macao, Southeast Asia and Japan, but all the various ports of China should institute an appropriate division of labor. At present, all Chinese ports regard the Hong Kong market as comparatively easier to penetrate, so that everybody vies with one another to enter that market, selling in the Hong Kong market lower quality merchandise, flooding the market and disposing of large lots at cheap prices and at great loss. We should recognize instead that Guangzhou and the other ports of South China should more intensively develop the Hong Kong and Southeast Asia market, while Dalian and Tianjin, in view of their geographical location, should more intensively develop Japan and Southeast Asia. The European market is more than Western Europe; the Soviet Union and Eastern Europe should also be one of Shanghai's export targets. Even though certain products of Shanghai manufacture cannot, according to a comparison of national values, find a market in the countries of North America, the Soviet Union and Eastern Europe still welcome certain products of Shanghai's light industry and certain foodstuffs.

C. As a city wherein foreign trade plays a leading role, Shanghai should, of course, by means of importing foreign advanced technologies, their assimilation, reproduction and by restructuring, manufacture advanced products, expand the exports of new products and use the foreign exchange so earned for further imports of new products and technologies; these are the major tasks of a city for which foreign trade plays a preeminent role. In the past, however, Shanghai did not open up sufficiently, was too tightly

protecting the domestic industry for too long, and allowed too great a disparity to exist between the products manufactured in Shanghai and those of advanced international manufacture. Now, Shanghai must go one step further in opening up and in relaxing restrictions against the importation of advanced foreign products. It would also do no harm to sell some kinds of advanced foreign-made daily necessities, electrical household appliances and even high-quality textiles in certain area of the city (e.g. in the Central Section of Huaihai Road in Shanghai). In this way, the ability to compare the qualities of domestic and foreign-made products will exercise pressure on domestic enterprises to improve product quality, which in turn will enable domestic products to quickly catch up in quality with the foreign products.

#### D. Shanghai Should Provide Comparatively Favorable Conditions for Foreign Economic Cooperation

A city with so substantial an industrial foundation as Shanghai should, of course, be very attractive to foreign investors, but in recent years developments have been very slow, as foreign investors were driven to take a wait-and-see attitude because very high return-sale proportions were insisted upon in the case of joint ventures, and the land use fees and income tax rates charged were very high. At present, we should provide in every respect favorable conditions for the absorption of foreign capital, and we hope that foreign merchants will be granted favorable conditions not only for investments in the new industries of Minxing--the available space there is too small--but also favorable conditions throughout the entire municipality similar to those granted in the new districts of Minxing and Hongqiao; otherwise, the contradictions can hardly be resolved. Under the present conditions of imperfect national economic legislation concerning foreigners, Shanghai could by itself draw up regulations applicable to Shanghai only. Viewed from the standpoint of the theory of dynamic comparative advantage, our importation of foreign capital and technologies is for the purpose of supplementing the production elements that are most lacking in Shanghai for the development of its advanced industry, and to create favorable conditions for the development of just such an advanced industry. Although the foreign investors are out to gain profits, it will be our Shanghai that will in the end reap the largest benefits. In the process of industrialization, many countries of the world have utilized external conditions and have succeeded in their development to the status of advanced countries; Shanghai should definitely also take this road.

#### E. Importing Qualified Personnel

What Shanghai now lacks most is not capital or natural resources, but qualified personnel capable of building up industries consonant with a modern economy and personnel well versed in financial and economic matters. The training of qualified personnel is a long-term task, and "distant waters cannot quench present thirst." All over the world, the interchange of qualified staff has become an important means of promoting the economic development of countries. Much of the flourishing development of the economy and of S&T in the United States is owed to the importation of talents from various countries, Einstein being a representative example and also including talented persons of Chinese ancestry. The economic upsurge of South Korea is

also the result of the importation of foreign talents. They publicly advertised in the NEW YORK TIMES for all kinds of specialists, inviting them to serve in South Korea. Shanghai could also consider advertising for thousands of specialists from the United States, Great Britain, France, West Germany and Japan to come to serve in the various industrial, agricultural, academic and commercial professions and trades, and also consider building a special compound for its international specialists, to centralize their management and facilitate their utilization. This could possibly play a major role in Shanghai's future economic upsurge, and if we start to calculate, the expenses for hiring foreign experts will prove more economical than the importation of technologies and commodities, and will also produce far more outstanding results.

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FOREIGN TRADE AND INVESTMENT

SWEDISH SMALL BUSINESSES PLANNING CHINA EXPORTS

Stockholm SVENSKA DAGBLADET in Swedish 16 Sep 85 p II

[Article by Per-Erik Landqvist: "China Trip Laying Ground for Exports"]

[Text] Rostanga. Some 30 Swedish small business leaders from mainly the counties of Jonkoping and Kristianstad will soon visit China in order to lay the groundwork for future export orders, in conjunction with the Swedish Government Industrial Agency.

"You would think that there would be more likely trade partners, but China has targeted Sweden after having discovered that the smaller companies in our country have extremely rapid means of decisionmaking and great flexibility," said Thomas Henningson, division chief with the Government Industrial Agency.

That just Jokoping and Kristianstad County industries have now come under the spotlight is because many of them are engaged in just those types of production in which China has an interest.

The trip may be made even before the end of the year, and those items which are of current export interest are mainly those from companies serving agriculture, as well as products from food, refrigeration, contracting and transportation industries.

According to Henningson, it is a region of China with 60 million inhabitants lying immediately north of Hong Kong which is interested in these exports. It was the Chinese ambassador to Sweden who made contact with the Government Industrial Agency and paved the way for the introduction.

A little over 15 of the export companies in question are prepared to go to China to introduce their products. The other companies will be ready during September and October.

Henningson is convinced that the southern Swedish companies have very good prospects to enter what will be an entirely new market for them.

"But," he pointed out, "it is probably advisable that small companies begin as soon as possible to see that they widen their horizon and learn a great deal about Chinese customs and practices. Without doubt, they are going to have great use of this. The table is not just going to be laid out for them; they are going to have to meet competition.



"Companies from, for example, West Germany, France, and England have already come out from the starting box in China. But in this particular region we are just now enjoying a little head start, however. And this is thanks to the Chinese ambassador, who really made an effort for us."

CSO: 3650/3

FOREIGN TRADE AND INVESTMENT

STATE COUNCIL REPORT GOVERNS CORN EXPORTS

OW131046 Beijing XINHUA in English 1030 GMT 13 Sep 85

[Text] Beijing, September 13 (XINHUA)--Exporting of corn can be handled only by enterprises which have been allotted a quota and are members of China's Corn Export Association, according to a report recently approved by the state council.

The report was submitted by the ministry of foreign economic relations and trade.

China has increased grain exports and reduced imports due to good harvests for several years running. In 1984, grain exports came to 3.44 million tons, of which 800,000 tons were corn.

The report said units handling exports must apply for export licences from the foreign trade ministry after they have submitted export contracts and credentials to the corn export association for examination.

The China Corn Export Association, set up in Beijing last May, is the first nationwide export organization for key commodity. It is responsible for coordinating China's corn export prices, markets and buyers in accordance with the export quota set by the state.

The report stressed that localities and departments involved in this work must strictly control corn quality. Terms of contracts must be met, including delivery time. Inspecting departments must enforce regulations. Any goods which fail to conform to quality standards will not be allowed to be exported.

China's corn is a good seller on the world market it is mainly exported to Japan and the Soviet Union at present.

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FOREIGN TRADE AND INVESTMENT

TIANJIN REPORTS JOINT VENTURES WITH FOREIGNERS

OW141216 Beijing XINHUA in English 0721 GMT 14 Sep 85

[Text] Tianjin, September 14 (XINHUA)--Tianjin city has signed contracts for 61 Chinese-foreign ventures this year, 10 more than the figure for the whole of 1984, according to municipal sources.

The projects involve 147 million U.S. dollars of foreign investment.

It is now negotiating with foreign businessmen on 118 projects involving more than 300 million dollars in foreign investment.

Industrial projects signed this year account for over 60 percent of the total, up from about 42 percent of local sino-foreign ventures now in operation. Some of them will turn out products for which China depends on imports at present, such as heavy-duty tires, fire extinguishers and automatic single-cylinder washing machines.

Ventures to be located in the city's economic and technological development zone, will concentrate on products requiring complex technology or for export, including multiple-layer printed circuit boards and micro electric bulbs.

Most of the investors were from Japan, the United States and Hong Kong.

Since it opened to outside investment in 1979, the city has signed contracts for 125 joint ventures.

Thirty-four of 36 local sino-foreign ventures in operation make profit and the remaining two are expected to end losses by the turn of this year.

The 36 ventures used a combined investment of 48 million U.S. dollars, including 20 million U.S. dollars from abroad.

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FOREIGN TRADE AND INVESTMENT

JINGJI RIBAO ON TAXATION OF FOREIGN INVESTORS

HK161543 Beijing JINGJI RIBAO in Chinese 8 Aug 85 p 2

[Article by Jin Xin, director of the General Taxation Bureau of the Ministry of Finance: "Work Hard To Do A Good Job in the Taxation of Foreign Investors in Order To Meet the Needs of the New Situation in Opening Up to the Outside World"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, to meet the needs of the new situation in invigorating the domestic economy and opening up to the outside world, China has successively promulgated three income tax laws concerning foreign investors: the income tax law concerning joint ventures using Chinese and foreign investment, the income tax law concerning enterprises wholly run by foreign investors, and the individual income tax law. It has also signed agreements on the avoidance of double taxation with the governments of such countries as Japan, Britain, France, the United States, the FRG, and Belgium. Taxation departments at various levels have done a lot of work in strictly observing policies, abiding by agreements, and collecting taxes according to the law. This has played a positive role in safeguarding the rights and interests of the state and promoting the development of the country's economic, trade, and technological cooperation with other countries. However, in the final analysis, taxation work concerning foreign investors is an area which is rather new to China. We have scant experience in this respect and our legal system concerning the taxation of foreign investors is pending further improvement. The relationship between tax collection and payment which is expressed in handling matters relating to the taxation of foreign investors is a problem which should be studied and solved in terms of ideological understanding.

First, the taxation of foreign investors is a taxation issue concerning the handling of economic and technological cooperation and trade exchanges with other countries. Regardless of the amount of taxes to be levied from foreign investors or the amount of tax reductions or exemptions to be given to them, this work is not merely a problem of participation in the distribution of revenues, but more importantly, it is a problem of independently exercising jurisdiction over taxation as a sovereign country. At the 12th CPC National Congress, Comrade Deng Xiaoping pointed out: "While we Chinese people value our friendship and cooperation with other countries and people, we value even more our hard-won independence and sovereign rights." What we should

do in regard to the taxation of foreign investors is precisely a job of vital importance to the sovereign rights and economic interests of the state. Safeguarding the rights and interests of the state is the basic point of departure in enacting tax laws and is also the fundamental principle that we should follow in handling the relationship between tax collection and payment in regard to foreign investors. Income tax, in particular, is an important tax category widely levied in various countries in the world. It has an important place in differentiating the rights and interests in taxation between related countries. All countries attach great importance to the exercise of tax jurisdiction over the income of transnational corporations based on investment. China is no exception.

In light of the actual situation in China and the general practices between countries, China's three income tax laws which have been promulgated and put into effect strictly define the scope of the tax and taxpayers and rationally set the limits of the country's tax jurisdiction. Moreover, compared with the average level of various sovereign countries, China practices the principles of taxing leniently, offering favorable treatment, and dispensing with all unnecessary formalities in regard to taxation. This will help embody the state's principles and policies on giving favorable tax terms to the investors on the premise of safeguarding the state's rights and interests, and will also help handle taxation affairs between ourself and other countries according to the principle of reciprocity. Moreover, this will also provide us with legal bases in properly handling the relationship between tax collection and payment in regard to foreign investors. In carrying out the practical taxation work concerning foreign investors or in studying and using for reference the tax system of any country or region, instead of divorcing ourselves from China's national situation, we must have an overall viewpoint and be good at analytically absorbing the practices and experiences conducive to safeguarding the rights and interests of our country so as to continuously develop and improve our tax system concerning foreign investors.

Second the taxation of foreign investors is aimed at serving the state's long-term strategic principle of using foreign capital and importing advanced foreign technology. This is another important aspect which should be taken into consideration in taxing foreign investors. In the course of accomplishing the four modernizations, China is being confronted with the problems of a fund shortage and technological backwardness. To solve these problems, it is necessary to rely mainly on our country's own capabilities. At the same time, it is necessary to use foreign capital and to absorb foreign technology so as to improve and develop the productive forces and to gain time to attain the magnificent goal of quadrupling the annual gross output value of industrial and agricultural production by the turn of the century.

The amount of taxes levied from the investors and the risk of being excessively taxed are important for the investors to consider in conducting feasibility studies on choosing an investment environment and examining investment projects. This determines that the taxation of foreign investors is an important component of policies and principles. The collection and reduction or exemption of taxes are of vital importance to the principle and policy of opening up to the outside world and to the overall use of foreign capital and

import of foreign technology to serve the development of our economy. In carrying out this work, we must strive to safeguard the rights and interests of the state while absorbing foreign capital, in order to promote the development of economic and technological cooperation with other countries. We must collect all taxes that ought to be collected in time, while guaranteeing the legitimate interests of investors. We must give necessary preferential tax terms to foreign investors while considering striking an appropriate balance in the tax burden between the former and domestic enterprises within a certain limit so as to help develop national industries. All this means greater demands on us in handling matters concerning the tax collection and payment in regard to foreign investors. In our practical work, we must not lay one-sided stress on one side of a matter to the neglect or negation of the other side. As far as tax departments are concerned, they must pay more attention to the study of policies and professional knowledge, the investigation and understanding of actual conditions, and the study and use for reference of international taxation practices. They must not regard the taxation of foreign investors as a common vocational practice of collecting taxes and use the amount of collected taxes to determine the importance of work. Still less should they argue that the work can easily be accomplished without necessary professionals who have an intimate knowledge of the laws and regulations as well as principles and policies concerning the taxation of foreign investors.

Third, developing economic and technological cooperation with other countries and attracting capital and technology from capitalist countries involves various investment partners and a wide range of relations. Tax problems that should be solved are very complicated. Solutions to these problems will involve numerous international tax practices and legal, financial, and accounting matters. Some transnational corporations engage attorneys specializing in taxation. They attach great importance to understanding China's tax laws and regulations concerning foreign investors and are adept in studying and raising various questions and working out various counter-measures for avoiding taxes. In handling the matters relating to the tax collection and payment in regard to foreign investors, we must pay careful attention to this state of affairs, learn to master new skills, enact a set of highly applicable rules and regulations, and carry out the work actively and prudently. There is now an argument asserting that "after all, the wool still comes from the sheep's back." It maintains that being taxed, foreign investors in our country will correspondingly demand higher prices, which will in turn add to the burden of our enterprises and hamper the conclusion of cooperation projects. This view lacks a scientific view. In reality, no foreign firms investing in a country will pay income tax "out of their pockets", using their capital fund so they have the duty to pay income tax only after they have earned income or profits. We tax foreign investors only on their income. The latter use part of their income to pay taxes to our country. At the same time, the amount of taxes which they pay to our country can generally be recovered by the amount of taxes deducted from the volume of taxes to be paid to their own governments. This is commonly known as tax credit. In other words, this is the reason that taxing foreign firms in China does not add to their burden, and it is not necessary for them to increase the costs of contracts. On the contrary, if our country does

not collect the taxes which ought to be levied, foreign firms will have to pay their governments taxes on what they have earned in our country. This will not only not lighten the burden on our enterprises, but foreign firms would not really benefit from not being taxed in China. With the exception of the investors coming from "tax havens" and "free ports," this practice will enable foreign governments to collect taxes that ought to be levied in China and cause damage to the rights and interests of our country. While welcoming foreign investors to do business or undertake cooperation projects with sincerity and by appropriate means, we must be on guard against and resist some individuals from infringing on the rights and interests of our country by inappropriate means. Indiscriminately catering to some irrational demands, basing the feasibility of projects totally on the assertion of the state collecting no or fewer taxes, and demanding that tax regulations be commensurate with the arrangements of interests between contractors, is serious and is not allowed by state laws.

Fourth, whether or not tax preferential terms are given and whether or not there is a risk of being excessively taxed are one condition, but not the only condition, for choosing an investment environment. In recent years, in the spirit of further relaxing policies while opening the country to the outside world, in order to attract foreign capital and technology, we have taken a series of encouraging measures in taxation. They cover a wide range of endeavors and a great many preferential terms that have never been seen before. However, there has also emerged a trend that merits attention: It seems that in reducing or remitting taxation, we can ignore practical results, and the more taxation is reduced or remitted, the better. One argument even holds that only when foreign investors are allowed to pay fewer taxes can we encourage them to make more investment. This is a one-sided view. An ideal investment environment depends on various factors. As far as China is concerned, its greatest appeal to foreign investors is that it has a vast domestic market and rich natural and labor resources. These are the favorable conditions for China's use of foreign capital. If we fail to bring these favorable conditions into play and confine our efforts to absorbing foreign capital mainly to reduce or remit taxes, it will be difficult for us to achieve the desired results. This is because under ordinary circumstances, if foreign investors pay fewer or no taxes in China, they will have to pay taxes to their respective governments just the same. To most foreign investors, so long as they can make a profit, appropriately paying taxes will not affect their enthusiasm for investment. In other words, the role preferential tax terms play in encouraging investment is conditional and supplementary. Such being the case, while working out tax preferential measures, it is necessary to pay attention to the selection of investment projects and technology items to be imported, and is necessary to make full deliberations and analyses about their necessity and feasibility. The general principle must be giving foreign investors tax preferential terms while safeguarding the rights and interests of our country. We must work hard to ensure that appropriate tax collections and rational tax concessions are made.

Fifth, collecting taxes is the legal duty of tax institutions and paying taxes is the legal obligation of taxpayers. Both tax institutions and

taxpayers must abide by the law. Tax institutions must persistently act according to the law, calculate taxation in accordance with fixed tax rates, and ensure that tax collection and exemption are strictly made on a legal basis. In regard to the issue of paying taxes according to law, enterprises and units engaged in economic relations and trade with foreign countries must not consider themselves "special;" instead, being in the same position of being taxpayers as their foreign counterparts, they have the duty to abide by the law and pay taxes accordingly and do not have any right to pay no or fewer taxes by overstepping the law. The scope of the tax and the amount of taxes to be collected and to be reduced or remitted are to be made according to the stipulations of the state's tax law. No department or unit has the right to make changes in this regard or shall make unauthorized tax provisions in their contracts with foreign investors and replace the state's tax law stipulations with commercial contracts. It is necessary to uphold the stability and inviolability of the tax law and to win confidence in legal terms. Efforts should be made to ensure tax collection and exemptions are made according to the tax law. We must handle matters relating to the taxation of foreign investors according to the law and by following legal procedures, take specific tax exemption measures according to the tax law and within the limits permitted by the law, and then let the related legal departments promulgate them to the outside world according to the law. Only in this way can the relationship between tax collection and payment in regard to foreign investors be built on the basis of rigorously abiding by the law, the sense of security in investment be enhanced, the role of taxation in encouraging investment and guaranteeing the legitimate rights of investors be brought into fuller play, and can the taxation work concerning foreign investors be advanced in a down-to-earth manner.

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FOREIGN TRADE AND INVESTMENT

XINHUA VIEWS GUANGDONG BENEFITS FROM OPEN POLICY

OW141352 Beijing XINHUA in English 1322 GMT 14 Sep 85

["New Analysis: "Open Policy Benefits Guangdong"--XINHUA headline]

[Text] Guangzhou, 14 Sep (XINHUA)--Guangdong Province is benefiting from the open policy, according to an organizer of the second sales exhibition of products from foreign-invested industries.

During the exhibition, which closed here earlier this week, contracts worth 50 million yuan and 70 million Hong Kong dollars were signed.

Since the open policy was adopted six years ago, Guangdong Province has signed 50,000 contracts and used foreign funds amounting to 2.2 billion U.S. dollars.

The volume of exports increased to 2.5 billion U.S. dollars last year, up from less than one billion U.S. dollars in 1979.

The total output value of industry and agriculture has increased by 8.9 percent annually in the past six years, partly due to the open policy, the official said.

Joint ventures, cooperative enterprises and enterprises using exclusive foreign funds have penetrated into the fields of industry, agriculture, transport, commerce and posts and telecommunications and tourism.

Now the focus of applying foreign investment has been shifted to industry, although it was on service items and building of infrastructure facilities at the beginning.

Some 80 percent of all foreign funds are invested in industrial items in Guangzhou, the Pearl River delta, and the special economic zones of Zhenzhen, Zhuhai and Shantou. Foshan, a city not far from Guangzhou, has imported equipment and production lines to bring its existing enterprises up to date.

Thanks to this, the city is now able to provide factories in other parts of China with advanced equipment to avoid duplicating imports.

CSO: 4020/6

FOREIGN TRADE AND INVESTMENT

BRIEFS

HEBEI FOREIGN CONTRACTS--Shijiazhuang, 18 Sep (XINHUA)--Companies in Hebei Province reaped a multi-million-dollar harvest at an international seminar on economic and technical cooperation which ended here on Monday. Provincial foreign trade officials said today that the companies had clinched more than 100 contracts and agreements involving 123 million U.S. dollars of foreign investment, as well as signing a number of letters of intent. They had also won 93 export orders worth 46 million U.S. dollars. Most of the investment contracts signed involve textiles, building materials and light industry, which are expected to achieve rapid economic results. The officials said that expenditure on imports to the province fell by 34 percent over the past year, mainly because of the introduction of Sino-foreign joint ventures, cooperative production, compensation trade, technical transfer and leasing. In one new deal, the Hebei patent office has agreed to sell a unique technique in producing high-speed tool steel to the JPA Company of the United States. About 600 business people from 20 countries and regions attended the 15-day seminar. [Text] [Beijing XINHUA in English 1633 GMT 18 Sep 85 OW]

GUANGXI FOREIGN INVESTMENT CONTRACTS--Nanning, 23 Sep (XINHUA)--The Guangxi Zhuang Autonomous Region signed contracts for 93 projects worth 200 million U.S. dollars in the first seven months of this year, a local senior official said. About 150 million U.S. dollars of foreign investment were involved, in contrast with 160 million U.S. dollars between 1979 and 1984, added Shen Yuefeng, vice-chairman of the regional foreign economic relations and trade committee. The investors were from Japan, the United States, Switzerland, Denmark, Australia, Belgium, Hong Kong and Macao. Fifty-five percent of the money invested from 1979 to 1984 went to industry, 30 percent to tourism and traffic, and the remainder to agriculture, forestry, fishery and amusement equipment. In the future, he said, foreign investment will still focus on energy development, transportation, mining, and updating some 3,000 existing facilities. The investments will be also channeled into the chemical, textile, light and electronic industries, and for agriculture and harbor construction, he added. [Text] [Beijing XINHUA in English 1644 GMT 23 Sep 85 OW]

GUANGDONG FOREIGN EXCHANGE EARNINGS--By the end of August this year, the amount of foreign exchange earnings from foreign trade in Guangdong Province had reached some \$1.67 billion and was 12.2 percent more than in the same period last year. By the end of last month, the value of exported goods procured had reached 2.9 billion yuan and was 917 percent more than in the corresponding period last year. [Summary] [Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 22 Sep 85 HK]

SHANDONG FOREIGN INVESTMENT CONTRACTS--Jinan, 24 Sep (XINHUA)--Shandong signed 113 contracts with foreign investors in the first eight months of this year, a 2.4-fold increase over the same period of last year. In the past six years, foreign businessmen have invested 159 million dollars in this coastal province, an official of the provincial commission of foreign economic relations and trade said here today. These contracts include joint ventures, international leasing and compensation trade enterprises, and processing with supplied materials in such fields as plywood, wine, ocean shipping, construction of hotels and entertainment facilities. [Text] [Beijing XINHUA in English 0645 GMT 24 Sep 85 OW]

XIZANG: MULTINATIONAL TOURISM GROUP--Lhasa, 13 Sep (XINHUA)--Ngapoi Ngawang Jigme met a study group representing 19 tourism services from nine countries here yesterday. He is vice-chairman of the Standing Committee of the National People's Congress and chairman of the Standing Committee of Tibet Autonomous Regional People's Congress. The group is the first international tourist study group ever visiting "the roof of the world." They are guests of the China International Travel Service. Ngapoi expressed the hope that through their efforts, more tourists would come to see the unique cultural tradition and scenery of Tibet. "We also hope you'll offer suggestions," he said. The 20 member group arrived in Lhasa on September 10th. [Text] [Beijing XINHUA in English 1502 GMT 13 Sep 85 OW]

ANHUI FOREIGN INVESTMENTS--Hefei, 15 Sep (XINHUA)--East China's Anhui Province has made remarkable progress in external trade by signing 572 contracts worth 116 million U.S. dollars during the past few weeks. The contracts were signed at an international trade fair held from August 20 to September 10, which was attended by 800 businessmen from 27 countries and regions. The province expects to further speed up the retooling of old enterprises and exploration of local natural resources by importing advanced equipment and utilizing foreign funds. It has already attracted foreign funds through the forms of joint venture, cooperative production, compensation trade and leasing. Foreign business people invested more than 10 million U.S. dollars through negotiations at the meeting. Meanwhile, 15 kinds of goods, including grain, animal by-products, textiles, chemicals and machinery, were exhibited for export. Some 412 contracts worth 65.5 million dollars were signed between Anhui and foreign businessmen at the fair. [Text] [Beijing XINHUA in English 0853 GMT 15 Sep 85 OW]

ZHEJIANG: LARGE EXPORT ORDERS--Hangzhou, 17 Sep (XINHUA)--Companies from Zhejiang Province won orders for exports worth more than 30 million U.S. dollars at a foreign trade fair which ended here on Sunday. Provincial foreign trade officials said today that in addition, contracts and letters of intent

had been signed on 12 development schemes in the form of Sino-foreign joint ventures and compensation trade. They involved a total investment of about 30 million U.S. dollars. Major export items sought by foreign buyers included cans, aquatic products, cotton yarn, rabbit-fur yarn, cotton knitwear, silk and satin, animal by-products, plastic bags and hardware goods. About 400 business people from 18 countries and regions attended the week-long trade fair. [Text] [Beijing XINHUA in English 1910 GMT 17 Sep 85 OW]

TRADE FAIR ENDS--The 21-day Shenyang Trade Fair on international investments and on imports and exports concluded today. This afternoon, the executive committee of the trade fair gave a send-off party for the 350 foreign businessmen from more than 20 countries and regions. During the trade fair, a total of 101 contracts were signed; and the business volume of imports and exports totaled \$57 million, of which, the business volume of exports topped \$21 million, 100 percent higher than that reached by Shenyang during the 1985 Spring Trade Fair held in Guangzhou. This has been the first international trade fair held by Shenyang since it enjoyed the right to directly trade with foreign countries. [passage omitted] [Excerpt] [Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 16 Sep 85 SK]

WANG FANG ATTENDS RECEPTION--The province's first foreign economic and trade talks were inaugurated ceremoniously in the Hangzhou Hotel auditorium last evening. Some 300 businessmen from 16 countries and regions attended the ceremony. The meeting was presided over by Zhuang Yumin, director of the provincial economic department. Vice Governor Xu Qichao made the opening remarks, while Vice Governor Wu Minda addressed the meeting. Vice Governor Wu Minda briefed the businessmen on the many favorable conditions in opening up the province to the outside world, and in promoting foreign trade. [passage omitted] Last night, Governor Xue Ju and Vice Governor Xu Qichao hosted a reception for the Chinese and foreign guests. Present at the reception were Wang Fang, Chen Fawen, Wu Minda, Li Fengping, and Wang Jiayang. [Excerpts] [Hangzhou ZHEJIANG RIBAO in Chinese 10 Sep 85 OW]

PRC SOUTHWEST--Xizang-Netherlands Cooperative Projects--The letter of intent of the energy leadership group of Xizang Region and the energy delegation of the Kingdom of the Netherlands on projects for the development of energy, the harnessing of rivers, and the development of agriculture and animal husbandry was signed in the conference center of the Lhasa Theater on the evening of 12 September. (Mao Rubai), deputy secretary of the regional CPC committee and head of the regional energy leadership group, and (Weida), director of the general department of the Ministry of Economic Affairs of the Kingdom of the Netherlands and head of the delegation, each signed the letter of intent. Attending the signing ceremony were Yang Zongxin, vice chairman of the regional people's government; (Wang Hai), director of the office of the Xizang economic work advisory group of the State Council; and all members of the Netherlands delegation. [Summary] [Lhasa Xizang Regional Service in Mandarin 1130 GMT 13 Sep 85 HK]

WOOL PRODUCTS' WOOLMARK WIN--Shanghai, 27 Aug (XINHUA)--Some 95 kinds of wool products on sale at an ongoing trade fair in Shanghai have been awarded the right to bear the woolmark label of the International Wool Secretariat. Woven by 29 local mills, the goods include embossing overcoating, fancy suiting, gabardine, cheviot, sweaters, knitting wool, cashmere, and woolen blankets. The secretariat approved the use of the trademark by the products recently after checking their quality. Woolmark marketing programs are being launched in Beijing and Shanghai, and will eventually be brought to other parts of China. [Text] [Beijing XINHUA in English 1953 GMT 27 Aug 85 OW]

TECHNOLOGY IMPORT CONTRACTS--Beijing, September 19 (XINHUA)--Five types of contracts for technology import will be subject to the examination and approval by the ministry of foreign economic relations and trade and local departments of foreign economic relations and trade. The procedure, approved by the state council, goes into effect on October 1. Covered are contracts signed by all sino-foreign joint ventures, cooperative enterprises and enterprises with exclusive foreign funds. Released by the ministry of foreign economic relations and trade, the procedure lists contracts on the transfer of industrial property rights and special technology, technical service, co-production, and the imported production lines, complete sets of equipment and other industrial goods containing industrial property rights and special technology transfer. [Text] [Beijing XINHUA in English 1042 GMT 19 Sep 85 OW]

GUANGDONG OVERSEAS LAW OFFICE--Guangzhou, 21 Sep (XINHUA)--A south China law office for affairs involving foreigners was set up here today. The office responsible for its own benefits and losses employs 15 lawyers and over 5 specialists of laws on international private law. This is the seventh of its kind in this city. There are 18 such law offices staffed by 237 in the whole of Guangdong Province. Guangdong Province is a national forerunner in using foreign investment and introducing techniques. There are almost 3,000 Sino-foreign joint ventures and cooperative enterprises, and more than 90 firms with exclusive foreign investment in the province. [Text] [Beijing XINHUA in English 1848 GMT 21 Sep 85 OW]

FOREIGN CONTRACTS SIGNED--Shenyang, September 16 (XINHUA)--A Shenyang city official announced that 100 contracts totaling more than 56 million US dollars were signed during the first Shenyang international economic fair which ended today. Direct foreign investment contracts totaling 35 million US dollars were signed during the three week Shenyang international bid and import and export fair, Li Zhonglu, Shenyang's vice-mayor said here today. Shenyang, the capital of Liaoning province, also signed 74 contracts for the export of goods, totaling 21 million US dollars. The products include machinery, textile, chemicals, light industrial products, livestock, medicine and minerals to be exported to Japan, the United States, and Soviet Union, the Federal Republic of Germany, Italy and Hong Kong. The fair attracted 330 traders from 19 countries and regions to Shenyang, one of the leading industrial bases in China. The fair was a major step toward achieving Shenyang's goal of becoming an important export producer in northeast China. [Text] [Beijing XINHUA in English 0901 GMT 16 Sep 85 OW]

22 October 1985

SPECIAL ECONOMIC ZONES

SHENZHEN'S SHEKOU DEVELOPS EXPORT INDUSTRIES

OW171820 Beijing XINHUA in English 1526 GMT 17 Sep 85

Shenzhen, September 17 (XINHUA)--About two-thirds of industrial products manufactured in Shekou, an industrial development district in the Shenzhen Special Economic Zone (SEZ), are exported, according to local officials.

Shekou has absorbed investment worth 1.45 billion Hong Kong dollars from the United States, Japan, Britain, France, Denmark, Switzerland, Singapore and Hong Kong in the last six years; about 80 percent of the capital has been used for development of industries.

The 40 existing industrial enterprises in Shekou turn out more than 100 varieties of merchandise, including micro-computers, motors, domestic electric appliances, containers, yachts, and leather and silk garments.

From the very beginning, the industrial development district has attached great importance to import of advanced technology and management, and to developing products suitable for international markets.

At the same time, the local authorities encourage enterprises to cooperate with domestic firms in other areas which are rich in raw materials or skilled manpower.

For example, the Huasi Silk Company, a Hong Kong-Shekou joint venture, has imported printing and dyeing techniques and equipment from Italy, Japan and Federal Germany to process grey silk from Zhejiang province, a major silk producer in China. All the printed silk has been exported at a price 40 percent higher than for previous grey silk products.

In the first half of this year, industrial output value reached 300 million yuan, with 78.6 percent of the goods exported. The district earned a surplus of foreign exchange equivalent to 170 million Hong Kong dollars.

CSO: 4020/8

SPECIAL ECONOMIC ZONES

BRIEFS

MACAO BANK OPENS BRANCH--Guangzhou, 21 September (ZHONGGUO XINWEN SHE)--Kuo Chieh-pan, deputy general manager of the Macao Nan-tung Bank, said: The Zhuhai branch of the Nan-tung Bank is scheduled to open officially on 22 September and to do business the following day. This is the first branch set up in Zhuhai by any foreign bank or bank in Hong Kong or Macao. Chang Chic-sheng, assistant general manager of the Nan-tung Bank, said: Recently the bank and Zhuhai City have jointly invested in the building of a large commercial center and the running of a number of factories in Jiuzhou Town. This bank has also granted nearly \$80 million dollars of loans to the city. In February this year, the bank signed an agreement in Macao granting a large loan to the Zhuguang Company for construction projects in Zhuhai City. ["The Zhuhai Branch of the Macao Nan-tung Bank to Open Tomorrow"--ZHONGGUO XINWEN SHE headline] [Text] [Beijing ZHONGGUO XINWEN SHE in Chinese 21 Sep 85 HK]

CSO: 4006/13

PUBLICATIONS

BRIEFS

SICHUAN GONGREN BAO TITLE CHANGE--According to a report of the SICHUAN GONGREN BAO, the SICHUAN GONGREN BAO will be changed to the SICHUAN GONGREN RIBAO in January next year. Six issues will be published each week and it will be a quarto-sized and four-page paper. Regarding the changing of the SICHUAN GONGREN BAO, the Sichuan Provincial Federation of Trade Unions had recently issued a circular to all city, prefectural, autonomous prefectural, and county trade unions and all industrial workers' associations. The circular says: After the change, the SICHUAN GONGREN RIBAO will act well as a mouthpiece of the party and government, will speak and work for the workers, and will promote the building of the two civilizations. [Text] [Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 16 Sep 85]

CSO: 4006/29



HONG KONG MEDIA ON CHINA

NONMETALLIC MINERALS PRODUCTION CENTER

HK060429 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD supplement) in English 6 Sep 85 p 3

[Text] Beijing (Sep 5)--China is making efforts to boost production and expand exports of nonmetallic minerals including marble, granite, kaolin clay, barite and graphite.

Mr Zong Benmu, general manager of the China Nonmetallic Minerals Industry Corporation, announced yesterday that, specially for the international market, China will build three talc producing centers in Laioning, Shandong and Guangxi, and three graphite producing centers in Shandong, Heilongjiang and Inner Mongolia.

He said China will also build a number of marble and granite producing and processing plants in Shandong, Shanxi, Sichuan, Fujian, Guangdong and Henan provinces.

The announcement was made at a current meeting on development strategy for China's nonmetallic minerals industry attended by more than 100 specialists, scientists and scholars.

The industry will introduce preferential policies to attract foreign investment in joint ventures and cooperative undertakings, including compensation trade and processing with supplied materials.

In the past three years, China has imported from Italy and West Germany 120 production lines for mining and processing marble and granite, Mr Zong said.

Some enterprises are negotiating with firms in Italy, the United States, Canada, West Germany and Hong Kong on joint ventures, he said.

China has rich reserves of 80 nonmetallic minerals in 4,700 localities. Gypsum reserves are estimated at 43.7 billion tons, graphite at over 100 million tons, talc at 90 million tons, bentonite at one billion tons and bariet at 140 million tons.

These products, sometimes referred to as industrial minerals, are widely used in petroleum exploitation and in the cement, metallurgy, paper, medicine, varnish, rubber, chemical and cosmetic industries.

CSO: 4010/001

HONG KONG MEDIA ON CHINA

SICHUAN DEFENSE INDUSTRIES PRODUCE CONSUMER GOODS

HK190324 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS SUPPLEMENT) in English 19 Sep 85 p 5

[Text] Many Sichuan factories, formerly specialising in manufacturing military equipment, are now applying their skills to develop civilian products, according to a senior Chinese official.

Mr Zheng Hengkang, a former director of Sichuan's Defense Industry Department, said these factories will produce more consumer and industrial goods to upgrade the living standards of the people.

"We are not fighting any war now...and there is no need to produce large amounts of defense equipment," he said.

Situated in western China, the landlocked Sichuan Province has long been a base of China's defense industry, making products ranging from rockets, cannons and satellites to bullets and explosives.

Mr Zheng, also vice-chairman of the Xinguang Industrial Products Import and Export Copr, Sichuan, said the corporation is keen to cooperate with foreign firms to upgrade its products.

"We are not interested in mere trading," he said, adding Xinguang wants to cooperate with foreign firms for joint ventures, compensation trade and technology transfer.

It is learned Xinguang was set up five years ago under the direction of Premier Zhao Ziyang, then first provincial party secretary of Sichuan.

Mr Zhao instructed that Xinguang, which controls more than 100 factories, should apply their technical skills in defense industry to civilian use.

Altogether, the factories employ more than 1.5 million people.

Over the years, the factories have diversified to manufacture cameras, optical glasses, batteries, refrigerators and motorcycles, along with making products like rifles, bullets and explosives, some for export.

Although Mr Zeng would not give figures relating to defense equipment production, it is learned Xinguang's total exports, including defense-related items, topped U.S.\$10 billion in the past five years.

Mr Zheng said Xinguang exported about \$10 million worth of civilian products last year and spends more than \$30 million every year to buy modern equipment and technology to upgrade its factories.

Xinguang produces motorcycles under two technology transfer agreements with Japanese motor vehicle giant, Honda, for domestic use.

One was signed in 1980 to manufacture 50 cc motorcycles and the other was concluded last year to make the 70 cc model.

Under the agreements, Honda provides design and technology.

Mr Zheng said Xinguang can make up to 150,000 smaller models and 120,000 units of 70 cc a year, more than half of the total Chinese production of motorcycles.

The agreement for the 50 cc motorcycle is due to expire early next year while that of the 70 cc model will be effective for six years.

Mr Zheng said cooperation with Honda has been successful and the Japanese firm has helped Xinguang raise production standards.

He said the strong demand for motorcycles in China has pushed their prices beyond international retail levels.

"We can make more profit by selling on the domestic market," he said, adding Xinguang has no plans to export motorcycles in the next five years.

Xinguang also signed an agreement with a Yugoslav firm to buy technology and equipment for the manufacture of refrigerators.

"We plan to make 200,000 refrigerators a year for the domestic market," he said.

On Monday, Xinguang formed a new joint venture with the Hong Kong-based Howeton International Ltd to make microwave stations to improve China's telecommunication facilities.

Mr Zheng said he is discussing further joint ventures with Howeton to make PVC tubes and special knitting needles.

The two projects are estimated to cost about \$5 million.

CSO: 4010/001

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